

TOWN OF CONCORD
TOWN HOUSE
CONCORD, MA 01742

PRESORT STANDARD
U.S. POSTAGE PAID
CONCORD, MA
PERMIT NO. 51

ECRWSS
RESIDENTIAL CUSTOMER
CONCORD, MA 01742

TOWN OF CONCORD FINANCE COMMITTEE REPORT

Special Town Meeting
Thursday, January 19, 2023*
7:00 PM
Concord Carlisle Regional High School
500 Walden Street, Concord, MA 01742

**Inclement Weather Date: January 20, 2023 at 7PM
Concord Carlisle Regional High School*

**MOTION TO ADVANCE FOR CONSIDERATION AND TAKE ACTION ON
CERTAIN ARTICLES WITHOUT DEBATE
(2023 SPECIAL TOWN MEETING CONSENT CALENDAR)**

Ms. Briggs moves: that the 2023 Special Town Meeting advance for consideration the Articles in the table below and take action on such Articles without debate on any of such Articles, provided that upon the request of ten (10) voters at this Meeting made before the vote is taken on this motion, an Article, or, in the Moderator's discretion, a portion thereof, shall be dropped from the Consent Calendar and shall be acted upon in the ordinary course of business at this Special Town Meeting.

Article 1	<p>FOSSIL FUEL INFRASTRUCTURE: CONFIRM AUTHORIZATION TO APPLY FOR PARTICIPATION IN FOSSIL FUEL-FREE DEMONSTRATION PROJECT</p> <p>Affirmative Action Recommended By: Select Board Motion: That the Town take affirmative action on Article 1 as printed in the Warrant. Reason: Confirmation of Select Board authorization to further affirmative vote under Article 31 of 2021 Annual Town Meeting by participating in legislative program authorizing certain towns to adopt a bylaw limiting expansion of fossil fuel infrastructure and amending bylaw that was approved under the same Article 31 to conform to legislative program; non-controversial at hearing.</p>
Article 4	<p>COMMUNITY PRESERVATION ACT COMMUNITY HOUSING RESERVE FUND</p> <p>Affirmative Action Recommended by: Select Board; Finance Committee Motion: That the Town take affirmative action on Article 4 as printed in the Warrant. Reason: Routine action to rescind prior Community Preservation Fund appropriations for Community Housing unused due to project cancellation and to appropriate those funds to the Community Housing Reserve Fund to be held for future town meeting appropriation for Community Housing projects; non-controversial at hearing.</p>

Select Board Recommendations on Special Town Meeting Articles

Article #	Title	Select Board Recommendation
1	Fossil Fuel Infrastructure: Confirm Authorization To Apply For Participation In Fossil Fuel-Free Demonstration Project	affirmative action (unanimous)
2	Reauthorize Special Legislation Petition – Real Estate Transfer Fee for Affordable Housing	affirmative action (unanimous)
3	Reauthorize Special Legislation Petition – Building Permit Fee Surcharge for Affordable Housing	affirmative action (unanimous)
4	Community Preservation Act Community Housing Reserve Fund	affirmative action (unanimous)
5	Concord Middle School Building Project	affirmative action (4-1 vote)

INTRODUCTION

This report has been prepared and is being distributed by the Town Finance Committee in fulfillment of its obligation to review and make recommendations with respect to all finance-related warrant articles. Two of the five warrant articles being considered at the Special Town Meeting (STM) to be held on January 19, 2023 (Article 4 and Article 5) are finance-related.

The Finance Committee recommendations below were arrived at by vote of the Committee after receiving regular updates on the matters covered in each article, monitoring the meetings and presentations in various forums made by the Community Preservation Committee (CPC) and the Concord Middle School Building Committee (CMSBC), and conducting a public hearing on the proposed warrant articles to get input from the public in advance of the Special Town Meeting.

RECOMMENDATIONS

For the reasons, and in the larger context, set forth below, the Finance Committee recommends affirmative action on both Article 4 (unanimously) and Article 5 (by a vote of 11 in favor, 3 opposed and 1 abstention).

The Select Board, at a meeting held on December 5, 2022, also voted to recommend affirmative action on both Article 4 (unanimously) and Article 5 (by a vote of 4 in favor and 1 opposed).

ARTICLE 4

1. Background.

Article 4 is sponsored by the Community Preservation Committee (CPC). Over several years, beginning in 2015, funds were appropriated by Town Meeting for the Junction Village Assisted Living Project in West Concord. Between 2015 and 2019, a total of \$1,045,000 was appropriated of which only \$744.24 has been spent. The remaining total of \$1,044,255.76, as outlined in the Special Town Meeting Warrant, has been held in abeyance pending construction. The project will not be proceeding, and the Select Board has terminated the construction agreement. These previously allocated funds cannot be used for other projects absent a vote of Town Meeting. This Article seeks Town Meeting authorization to reallocate those funds from this now defunct project to other uses.

2. Impact of approval or disapproval.

With community approval at this Special Town Meeting, the CPC will recapture the unused (\$1,044,255.76) funds and return those funds specifically to its Community Housing Reserve Fund. The funds can then be used in connection with other, future affordable housing projects. Those new projects will be subject to the CPC approval process used for allocating CPC funds, and those CPC allocations will be submitted for approval by vote at future Town

Meetings. Disapproval leaves the funds associated with this defunct project and unusable for other purposes.

3. Reasons for Finance Committee recommendation of affirmative action.

The Town's citizens have repeatedly demonstrated their support for increasing the amount of affordable housing in Concord. The money at issue had already been designated for that purpose. Reallocating the \$1,044,255.76 to the Community Housing Reserve Fund within the CPC provides the CPC and future Town Meetings the ability to use those funds to support future projects that conform with the current CPC and Town Meeting approval processes.

ARTICLE 5

1. Background.

Article 5 is sponsored by the Concord Middle School Building Committee (CMSBC). It seeks to increase the \$102,816,000 amount previously appropriated for the construction of the new Middle School (discussed below) to \$110,016,000. This increase of \$7,200,000 will be funded, as was the original amount, through borrowing that is outside the levy limit. If Article 5 is approved at the STM, it will also have to be approved by a ballot vote.

Town Meeting in 2019 appropriated \$1,500,000 for a feasibility study and follow-on development of a schematic design for a new Middle School to replace the Sanborn building (built in 1964) and the Peabody building (built in 1970). The feasibility study recommended total replacement of the buildings with a single school. A schematic design process was completed for the combined building. At the Special Town Meeting held on January 22, 2022 (2022 STM), the CMSBC sought full funding to construct the building envisioned by that work including an expanded gymnasium and auditorium that are not in the Concord Middle School Educational Program as approved in January of 2021 (hereafter "education plan"). The 2022 STM approved a bond authorization for \$102,816,000 based on a project budget that estimated construction cost of \$80,772,447.

The debt authorization was for "excluded debt" meaning that the borrowing would be financed outside the limits set by Mass General Laws Ch 59 Section 21C, otherwise known as Proposition 2 ½, which limits annual tax levy increases generally to 2.5% unless action is taken to override this limit. That required approval by a 2/3rds majority at Town Meeting, and a simple majority at a subsequent ballot vote. Both of those requirements were satisfied, and the borrowing was approved.

Concord has, in the past, used excluded debt for large municipal construction projects such as school buildings. The underlying excluded debt associated with prior large construction projects is being retired, but that process will take many more years. The debt associated with the elementary schools will be paid off in fiscal year 2030; the debt associated with the

construction of the high school will be paid off in fiscal year 2039. An initial \$12,000,000 has already been borrowed under the authorization for the Middle School construction, leaving \$90,816,000 of the authorized debt still to be borrowed.

Therefore, the new debt associated with the Middle School Project will be incurred while the Town is still paying off debt associated with other school building projects. Because excluded debt is financed through increases in real property taxes, this has an obvious impact on taxpayers.

After approval of the \$102,816,000 bond authorization, the CMSBC continued its work. In June 2022, CMSBC received updated project construction cost estimates based on more detailed and specific design drawings and specifications. Construction costs according to the June 2022 estimate were \$86.1 million, exceeding the January 2022 construction cost estimate by approximately \$5.3 million, because of significant inflation in material and labor prices.

From June through September 2022, CMSBC agreed to design changes resulting in cost reductions of approximately \$1.9 million; a process known as “value engineering.” CMSBC limited its value engineering options to those design elements that would not impact the Middle School education plan. The education plan defines proposed education activities and informs the school design. The value engineering process had an impact on interior and exterior material choices. In addition, certain items that were not part of the education plan were excluded from the value engineering process, including the enlarged gym and auditorium spaces that were part of schematic design. The costs associated with the gym and auditorium were estimated to be about \$1.2 million for the expanded gym and about \$1.8 million for the auditorium.

In October 2022, CMSBC received updated construction cost estimates based on the next iteration of construction drawings which included the earlier design changes (known as the “60% complete design drawings”). At this point construction costs were estimated to be \$86,455,680, exceeding the January 2022 cost estimates by approximately \$5.7 million, due to further inflation in material and labor prices. During November 2022, the CMSBC agreed to additional design changes resulting in cost reductions of approximately \$111,000. Currently, the project cost, including all agreed upon value engineering adjustments, is estimated to be \$108.7 million including construction costs of \$86.3 million, which exceeds the January 2022 cost estimates by approximately \$5.6 million.

In January 2023, CMSBC is expecting an updated construction cost estimate based on the next iteration of construction drawings (“90% complete design drawings”). These drawings will serve as the basis for the project bid requests that would be sent to vendors following Town Meeting and voter authorization, likely in February 2023. Bids are expected to be received in April 2023.

The warrant article requests an increase of \$7,200,000 to the original bond authorization, allowing for further cost increases through bidding (\$1.6 million above the current estimated average of \$5.6 million).

2. Impact of Middle School borrowing on property taxes.

a. *Background*

The approval of Article 5 will permit the CMSBC to seek construction bids based on the current design of the school after the estimated cost increases and with the value engineering adjustments that have already been made. It is important to note that the Town is prohibited by law from requesting bids on a project where the expected costs exceed the approved debt authorization. Therefore, additional debt authorization is required before bids can be sought for the higher amounts in the current estimates.

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.

Concord is financially healthy because of our 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, in fiscal year 2023, carrying \$43.1 million in tax supported debt, divided between excluded bond issues (\$23.5 million) and bond issues (\$18.6 million) 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 (\$30.8 million Concord debt share) and Minuteman Regional Vocational School (\$8.1 million 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.

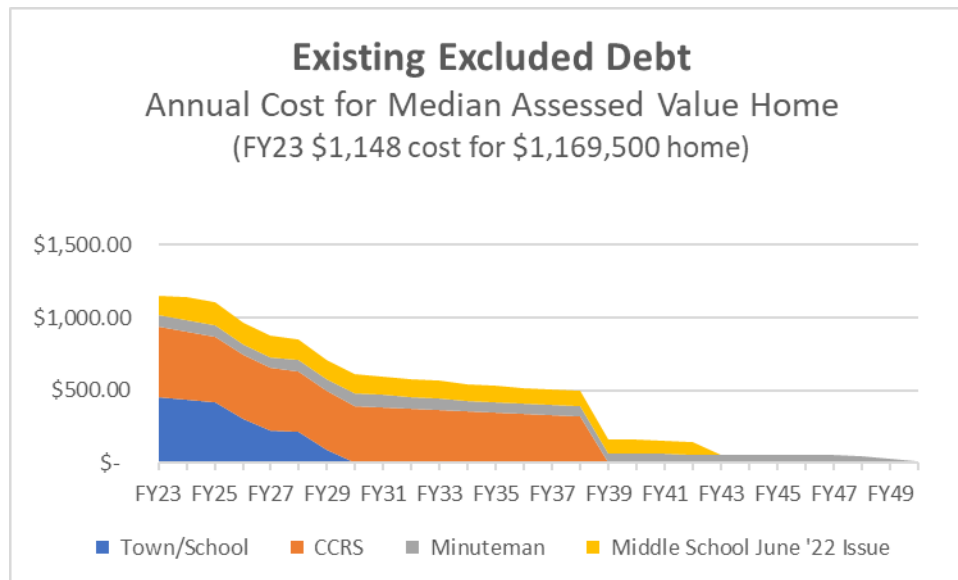
The impact of excluded debt on property taxes occurs because of four factors and is similar to the impact of a home mortgage on household expenses. The first factor is the actual cost of designing and constructing the building. In the case of the Middle School, these costs have increased because of price inflation as discussed above. The second factor is the interest rate. The interest rates that will have to be paid for the bonds to be issued to finance the Middle School have increased substantially since the beginning of 2022. The third factor is the time-period over which the debt will be repaid. Whether the bonds are issued for 20, 25 or 30 year terms will have an impact on the amount of the payments in the way that the monthly payments associated with a 15, 20 or 30 year mortgage will vary even though the amount being borrowed is the same. The fourth factor is whether the periodic payments are "level debt" or "level principal" (discussed below).

The same inflationary pressures and interest rate changes that have caused an increase in the anticipated cost of the Middle School construction are having a significant impact on the expected costs of borrowing. When the bond authorization for \$102,816,000 was presented to the taxpayers for consideration at the Special Town Meeting in January of 2022, due to a then-

favorable debt market and on advice of the Town’s financial advisors, interest rates of 2.75%-3.75% were anticipated on the Middle School borrowing. That interest rate assumption was used in projecting the expected increase in property taxes. It was also expected that the borrowing would be done for a 25-year term using a “level debt” approach. For past Concord Public Schools building projects, Concord had issued 20-year bonds, with “level principal” payments, meaning that the amount of the payment declines over time because as the principal decreases the interest owed decreases as well. Given the significant property tax impact of the new debt, a “level debt” approach was considered for this new debt, a strategy similar to a home mortgage. This means that the amount of the payments would be lower, particularly in the early years, and relatively consistent from year-to-year. But the underlying principal would be paid back more slowly since more of each payment would be allocated to the payment of interest. Using those assumptions, it was estimated that the likely increase in annual property taxes on the median value property in Town (then \$971,200) would be \$902 for 25 years. Given the dramatic recent changes in the debt market, the impact on real estate taxes will be larger than previously projected.

b. Current Town debt obligations

Turning to the current situation, the aggregate annual debt service on the excluded obligations is currently \$7.55 million (FY23). That equates to \$1,148 annually in property taxes on the median value property in Town, valued (after the recently completely revaluation) at \$1,169,500. All the bonds issued for the past school construction projects 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 Middle School project except for the \$12M in debt already issued in June 2022 on the basis of the prior debt authorization.



The recent, dramatic interest rate increases do not increase the cost of previously issued debt. But projections of the impact on taxes of future borrowing, including future borrowing under the already approved bond authorization, must take that into account.

c. Projections of the future impact of the Middle School debt

Borrowing related to the Middle School will increase real estate taxes, but quantifying that increase requires making certain assumptions about not just interest rates but other terms and conditions that will be associated with the borrowing. One of the tools being considered is to finance the debt over 30 years rather than 20 (as for past projects) or 25 (as had been expected for this project). Using a 30-year term decreases the annual payments and therefore the impact on property taxes and allocates more of the burden of paying for the school to future residents of the Town. It also increases the overall cost of the project because the total amount of interest paid will be greater and may have an impact in the future on the Town’s ability or willingness to incur debt to finance other large building projects. The chart below shows the differences between the projected impact on annual real property taxes for the median property (using the current median assessed value of \$1,169,500) of the different approaches and shows the incremental impact of the additional \$7,200,000 being requested by CMSBC in Article 5.

Financing Options for Future MS Debt
(annual costs for median homes)

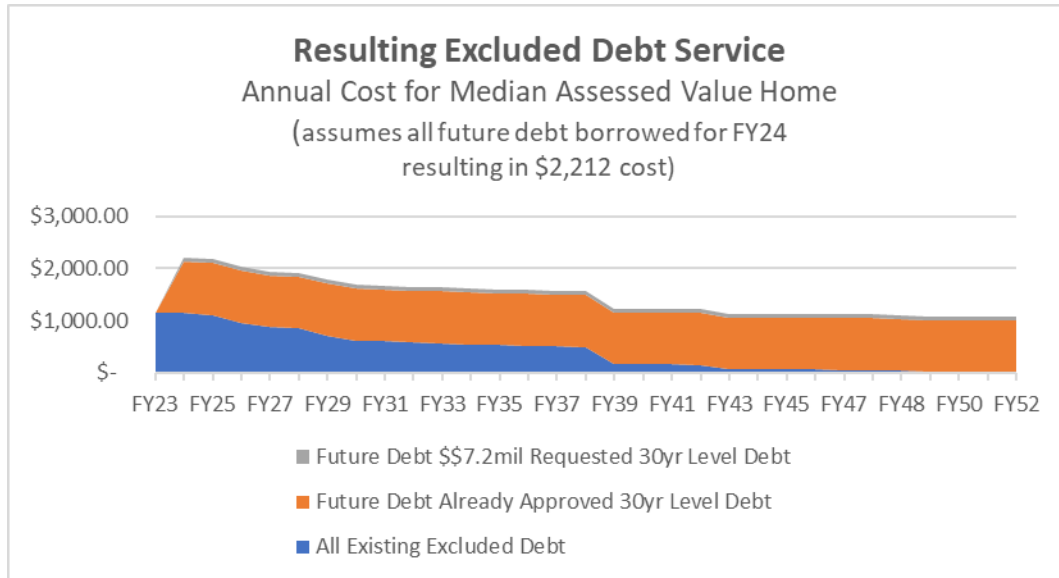
Term of borrowing:	25yrs	25yrs	30yrs
Interest rate:	5.10%	5.25%	5.25%
Financing approach:	Level	Level	Level
	Principal	Debt	Debt

Authorized	yr 1	\$1,257	\$1,004	\$924
\$90.816 mil not yet issued	yr 2	\$1,229	\$1,004	\$924
	yr3	\$1,200	\$1,004	\$924
	yr25	\$580	\$1,004	\$924
	yr30			\$924

Requested	yr 1	\$100	\$80	\$73
\$7.2 mil additional	yr 2	\$98	\$80	\$73
	yr3	\$95	\$80	\$73
	yr25	\$46	\$80	\$73
	yr30			\$73

The chart below shows the projected impact on excluded debt service if the Town were to issue all the approved debt in fiscal year 24 using the 30-year level debt approach shown in

the last column above, and breaks out the debt service associated with the additional \$7,200,000 requested in Article 5:



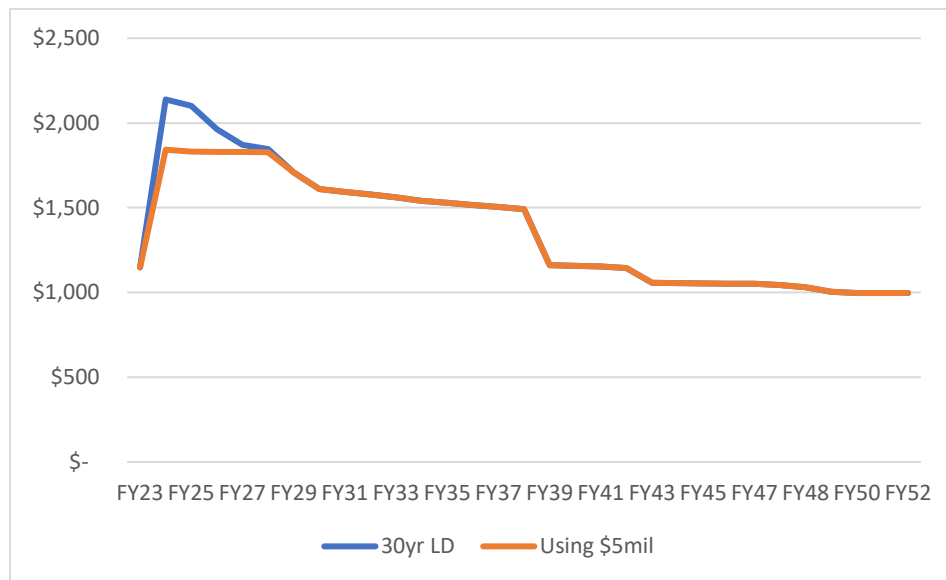
The cost of financing the Middle School will be higher than was projected in January 2022 and will have a greater impact on annual property taxes than was estimated at that time. If Article 5 is approved the overall cost for the Middle School will be higher than anticipated in January 2022. As discussed above, the largest portion of the increased impact on property taxes is attributable to the increased costs of borrowing and will occur whether Article 5 is approved or disapproved.

d. Mitigating the impact on property taxes

By law, the Town Treasurer has the authority to determine the terms (meaning the interest rate, duration, and other specifics) of town-issued debt. Those decisions are made in consultation with Town-retained experts and are subject to approval by the Select Board. The terms will depend on market conditions at the time the bonds are issued and may vary from the assumptions used above. Some of those future decisions may mitigate the anticipated impact. For example, the Town may decide to stagger the borrowing by breaking it into smaller bond offerings, which will spread out the costs in the initial years and may have the effect of lowering the costs if it appears that interest rates are likely to decline over the course of the building project.

One mitigation strategy that has already begun to be implemented is the establishment of a stabilization fund, setting aside funds in advance 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) into a stabilization fund established for this purpose. \$2 million was allocated then, and an additional \$1.5 million was added at subsequent Town Meetings from budget surpluses and by means of a transfer from the Board of Assessors overlay account. The intent is to have a sufficiently large amount set aside to have

an appreciable impact on tax increases. The initial goal was to have the stabilization fund be \$5 million by the time large drawdowns are being made on the borrowing authority, although the actual amount and timing for funding of the stabilization fund may differ based on the circumstances at the time. Without the stabilization fund, the costs to the taxpayer would be particularly high during fiscal years 24 through 28, because debt payments for the new Middle School will have to begin before debt associated with other school building projects has been fully retired. By allocating funds from the stabilization fund during those early years, the impact can be flattened. For example, by allocating \$1.95 million in fiscal year 24, \$1.775 million in fiscal year 25, \$875,000 in fiscal year 26, \$275,000 in fiscal year 27, and \$125,000 in fiscal year 28, the annual property tax increases on a median value property can be reduced from more than \$2100 per year to about \$1800. The projected impact of this use of the stabilization fund is shown in the chart below.



e. Implications of not approving Article 5

If Article 5 is not passed, there are several implications. The borrowing and project cost would remain as voted in January 2022; that is, \$102,816,000. As already noted, the interest cost associated with the approved borrowing will increase from previous projections, regardless of Article 5’s approval. The CMBSC has stated that a “No” vote would result in a six-to-nine-month redesign delay to meet the existing debt authorization. CMSBC has estimated that such a delay would result in further price escalation. CMSBC believes the combination of redesign costs and further price escalation would require design adjustments valued at \$11.4 million versus the currently estimated overage of \$5.6 million. CMSBC has not presented a building design option which would meet the previously approved authorization.

The January 2022 warrant article voted at Special Town meeting specified an amount but did not specify a design. Earlier the town voted for a “net zero ready” design when

approving funds for the Middle School feasibility study but other aspects of the design could be revisited to stay within the bond authorization. CMSBC has indicated that the expanded gym and auditorium included in the 2022 schematic design would likely be affected by any redesign.

3. Reasons for Finance Committee Recommendation.

The Finance Committee has been monitoring the work being done by the CMSBC. Designated Finance Committee members have attended CMSBC meetings and reported back to the full committee. The School Superintendent and the CMSBC co-chairs have made several presentations to the Finance Committee, and the Finance Committee held a public hearing to discuss both the articles on the warrant for this Special Town Meeting on November 17, 2022.

After the November 17 public hearing, a robust discussion took place about Article 5 and a committee vote was taken on whether to recommend affirmative action. The Committee voted overwhelmingly, but not unanimously, to recommend affirmative action on Article 5. Even some members voting for affirmative action expressed concern about the risks associated with the project as currently proposed and the lack of options presented. The Committee considered the fact that the amounts being sought are based on a 60% estimate; to maintain the current schedule, the amount in the warrant had to be set before the 90% estimate could be received. Risks associated with the actual bidding process, since by law the bids can't be sent out before there is a debt authorization that is at least equal to the anticipated cost, were discussed, as were concerns about the ability to control costs going forward. Some members also expressed concerns that the value engineering process had excluded many aspects of the building (including the expanded auditorium and gymnasium) from consideration.

The Committee recognized that if Article 5 is approved and the 90% cost estimate and/or bids are higher than anticipated, the Town will be faced with two choices: authorize additional borrowing or build a school within the \$110 million authorization, which will likely require re-design, cost increases, and a delay to the project.

These concerns were weighed against other important factors. The Committee acknowledged that the addition of \$7,200,000 to the bond authorization was not a major driver of the overall increased cost to taxpayers. The cost of borrowing at a higher interest rate has a larger impact and would occur even if the debt authorization is not increased. And significant weight was given to the CMSBC's warning that disapproval of Article 5, which would require it to build the school within the original authorization, would result in a significant re-design, considerable cost increases, and a delay of six to nine months in the project.

Taking all these factors into consideration, and after thoughtful and detailed discussion, the Finance Committee recommends affirmative action on Article 5, adding \$7,200,000 to the existing bond authorization for the Middle School project, bringing the total authorization to \$110,016,000.

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 9, 2023
FOR SPECIAL TOWN ELECTION – FEBRUARY 6, 2023**

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 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-in 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 – Thursday 8:30 AM - 4:30 PM, Fridays 8:30 AM – 12:30 PM, and by appointment.