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David A. Genereux
Finance Director

DATE: September 4, 2008
TO: Don Sawyer, Business Manager
FROM: David Genereux, Finance Director
RE: Financing Options for High School Feasibility Study

I am writing as per your request to detail the possible methods of financing the high school feasibility study as invited by the Massachusetts School Building Authority (MSBA) and required pursuant to M.G.L. Chapter 70B. This memorandum offers financial information per the scenario that you offered in your request, either a full \$500,000 funding via stabilization/free cash/other sources of funds (including debt), or \$250,000 funding via those sources (or state reimbursement) with a \$250,000 potential borrowing. Bear in mind that any projected costs to the average taxpayer are based on the FY 2008 values and tax rate. We are also not including any state reimbursement calculation for the options that fully fund the study at \$500,000.

There are different options available regarding funding the costs of the feasibility study. Either one or a combination may be selected. They are:

- 1.) Funding through current appropriation/interdepartmental transfers
- 2.) Funding through debt service (existing tax levy)
- 3.) Funding via stabilization/free cash transfer
- 4.) Funding via Proposition 2 1/2 override/debt exclusion/capital exclusion

1.) Funding Through Current Appropriation/Interdepartmental Transfers: This method is a simple reallocation of funds from one or multiple departmental line items of the FY 2009 budget, as passed at the Spring Annual Town Meeting, to a new feasibility study line item that would be established for the expenditure of the funds. It is a transfer request, which requires a simple majority vote by Town Meeting.

It is predicated that the budget line or lines have funds available for transfer. I am assuming that the School Department will not have the ability to access significant funding from its current appropriation to pay for the study. There are no available funds in the municipal or unclassified appropriations.

2.) Funding through debt service: This method assumes that the Town would obtain a borrowing authorization for the study at the Fall Annual Town Meeting. Please note that this method funds the study through the current levy; not subjecting it to a debt exclusion vote (Option #4). The Town would not actually bond the costs until the final school vote was taken. We would issue bond anticipation notes (BANs) annually until the vote, at an estimated cost of \$20,000 per BAN. This amount would have to be funded in the debt service account. After the study is concluded, assuming that the MSBA issues a positive decision, the high school construction costs would be subject to a debt exclusion vote. If the vote is in the affirmative, we would fold the cost of the study into the school debt exclusion (allowable per Bond Counsel), and bond the entire authorization after state aid for up to twenty five years.

If the project is approved and funded, the feasibility study will be taken care of without the diversion of funds from stabilization, free cash or departmental operating funds. However, if the project does not pass, the Town will have a total of five years from the date of the first BAN to pay for the cost of the feasibility study, net of any state reimbursement. The following costs assume a one year BAN, followed by a four year debt schedule at four percent. The overall final cost of the study would be \$570,600, with average annual debt service of \$110,120. This figure drops if \$250,000 is borrowed, with final expenditure of \$295,400 with average annual debt service of \$68,850.

3.) Funding via Stabilization/Free Cash Transfer: Town Meeting can appropriate funds from stabilization for any lawful purpose based on a two-thirds vote. Bear in mind that keeping a healthy balance in stabilization is a key factor in maintaining the bond rating. The stabilization fund balance currently stands at \$541,441.17. Transfers from free cash require a simple majority vote at Town Meeting. Free cash has not yet been certified, but will be in advance of the Fall Annual Town Meeting.

At present, I would not recommend funding the study from Stabilization or free cash. Our financial position remains precarious. New growth continues to slow, and the stabilization fund balance stands at less than 2% of general fund revenues. The Town needs to increase its financial reserves, and by doing so, maintain its bond rating.

4.) Funding via Proposition 2 ½ debt exclusion: Debt exclusion funding requires approval at a special or annual election followed by appropriation at Town Meeting. A Debt exclusion would allow for the borrowing of part or all of the cost of the study to be raised above the tax levy for the duration of the borrowing. No BAN's would be issued under this option, funding the study over a five-year schedule. The total cost of a \$500,000 exclusion as listed in option #2 would be \$562,000 with average annual debt service of \$112,400 annually which would add .07 to the existing tax rate. Total annual cost of the exclusion to a property with the FY 2008 average value of 341,752 would be \$23.92. The approximate cost over five years would be \$119.60. The cost of a five-year \$250,000 exclusion as listed in option #2 would be \$280,800, adding .03 to the existing rate or \$10.25 per year to a property with the average FY 2008 value. Total cost over five years would be approximately \$51.25.

A capital exclusion calls for the raising of taxes for one year in order to fully satisfy the cost of the study in one fiscal year. No debt is issued under the capital exclusion; but it still requires an affirmative vote at a special or annual election to be implemented. A capital exclusion of \$500,000 would add .29 on the current tax rate, which raise taxes on property with the average property (as valued above) by \$99.10. Under the 50/50 scenario, the cost of \$250,000 would add .15 to the tax rate; raising taxes on the average property by \$51.26 for a single year.

I do not recommend either exclusion, as the Town would face the possibility of two ballot elections for the high school project; the first being the exclusion for the study and the second for the actual project.

Recommendation: I recommend that the School Committee seek a borrowing authorization within the tax levy for the feasibility study as detailed in Option #2 above. It would allow the study to be commenced within weeks of approval of the authorization. It allows departmental operating budgets, free cash, and stabilization to remain unaffected. It also avoids the scenario of multiple ballot questions for the high school.

If the high school is approved, the debt service for the study would be funded as part of the overall debt-excluded project. If the high school was not approved, the Town could rescind or reduce the borrowing authorization; as it would not yet be permanent, and explore any of the remaining options listed in this memorandum in order to reduce the impact of the short payoff time upon the levy.

I have had Bond Counsel prepare the following warrant article and motion, for the School Committee's consideration.

Article

To see if the Town will vote to appropriate a sum of money, said sum to be expended under the direction of the School Building Committee, for the cost of architectural and/or engineering services for a feasibility study relating to the construction of a new high school on town-owned land at 246-270 Quaker Highway, for which feasibility study the Town may be eligible for a grant from the Massachusetts School Building Authority (the "MSBA"); the MSBA's grant program is a non-entitlement, discretionary program based on need, as determined by the MSBA, and any costs the Town incurs in connection with the feasibility study in excess of any grant approved by and received from the MSBA shall be the sole responsibility of the Town; to determine whether this appropriation shall be raised by borrowing or otherwise; or to take any other action relative thereto.

Motion

I move that \$500,000 be appropriated, to be expended under the direction of the School Building Committee, for the cost of architectural and/or engineering services for a feasibility study relating to the construction of a new high school on town-owned land at 246 – 270 Quaker Highway; that to meet this appropriation the Treasurer with the approval of the Board of Selectmen is authorized to borrow \$500,000 under G.L. c.44, G.L. c.70B, or any other enabling authority; that the Town acknowledges that the Massachusetts School Building Authority's ("MSBA") grant program is a non-entitlement, discretionary program based on need, as determined by the MSBA, and any costs the Town incurs in excess of any grant approved by and received from the MSBA shall be the sole responsibility of the Town, and that the amount of borrowing authorized pursuant to this vote shall be reduced by any amounts received from the MSBA prior to the issuance of bonds or notes under this vote; and that the School Building Committee is authorized to take any other action necessary to carry out this project.

Please feel free to contact me with any questions.