

Lincoln Finance Committee
Recommendations on Campus Projects
May 10, 2018

After reviewing various materials provided by the School Building Committee (“SBC”) and the Community Center Preliminary Planning and Design Committee (“CCPPDC”), conducting a question and answer session with those committees on April 30, 2018, and analyzing and reviewing relevant data from the Massachusetts Building Authority (“MSBA”), the Massachusetts Department of Revenue (“Mass DOR”), and various other online sources, the Lincoln Finance Committee (“FinCom”) makes the following statements and recommendations regarding the Campus Projects in particular and capital expenditure financing in general, all unanimously approved by FinCom on May 3 and May 10, 2018.

First, relating specifically to the School Building Project:

1. **It is more fiscally responsible to do a single project to address the needs of the school buildings than to do piecemeal repairs.**

Discussion: Lincoln’s Capital Planning Committee has expressed this view for years now, and FinCom agrees. After numerous studies over many years, the need for repairs and/or replacement of various school building elements and equipment is well documented, and FinCom believes that it is more cost effective over the medium to long term to implement those repairs and replacement all in one project.

2. **FinCom recommends against delaying the School Building Project in hopes of getting more favorable construction costs sometime in the future.**

Discussion: Similar to Fincom’s previous comments to the Town regarding the difficulty of predicting the future direction of interest rates, we also believe that it is difficult to predict when or if an economic recession or slowdown might occur that might ease demand for building supplies & contractors. We also note that in the financial crisis / recession period of 2008-2010, school building construction costs stayed steady and did not materially drop. Overall, FinCom does not believe there is value in trying to “time the market” and hope for lower construction costs in the future.

3. **Construction cost per square foot estimates used in the concept cost estimates currently presented by SBC are consistent with prevailing school building construction costs in Massachusetts.**

Discussion: The high rate of increase of construction costs for school building projects in Massachusetts since the Town’s 2012 attempt at a school building project is frustrating to everyone involved. But if we want qualified contractors to show up and work on this project, we have to pay prevailing rates. Based on our review of comparable projects in Massachusetts, FinCom is comfortable that the construction cost estimates provided with

the current concepts are consistent with other similar projects. We remind residents that these construction costs do not include (a) escalation of costs to the expected year of construction, or (b) the “soft costs” such as architect and owner’s project management fees, furniture and equipment, and other non-construction related costs. Thus one should be careful to distinguish between “construction costs” and “total project costs”.

- 4. The square footage per student implicit in the Concepts R, L1, L2, L3 and C are in line with comparable schools in Massachusetts *if* we exclude the Auditorium, the 2nd gymnasium, the hubs (for the L3 and C concepts), and the extra hallway space implicit in the L shape concepts.**

Discussion: We suggest residents think of the school building project in two pieces: a “base school”, which would consist of elements that would all fit within MSBA guidelines and be found in comparable schools in Massachusetts, and “preferred elements” which are not. The preferred elements in the proposed concepts are as listed above. FinCom’s position is basically that the “base school” is of reasonable size relative to the target enrollment. We suggest that residents consider value and incremental cost of the “preferred elements” separately from the value and cost of the “base school” when they evaluate concepts. We also note there are significant community uses of the school facilities in general and the Auditorium and 2nd Gymnasium in particular, importantly including providing locations for election polls and Town Meetings. Regarding the latter, we further note that Town Meeting is required to be held within Town limits (e.g. using space at the Lincoln Sudbury Regional High School would not satisfy this requirement), and we do not have another facility that is large enough.

FinCom does not have any statements or recommendations for the Community Center Project at this time. After the recent CCPPDC recommendation to hold off on bonding and construction of a community center, we focused our evaluation on the larger and higher priority school building project.

Regarding capital expenditures and project financing in general:

- 5. FinCom recommends the Town continue to operate within the current 5% statutory debt limit.**

Discussion: Although FinCom reported in January 2018 that the Town could petition the Massachusetts Municipal Oversight Board about increasing its debt limit, and that such request might be approved if residents strongly supported an essential project such as a school, we note that very few towns in Massachusetts have ever done this, for good reason. FinCom believes that continuing to adhere to the current 5% debt limit is fiscally responsible and will help keep important financial measures, such as “debt service / operating budget”, within prudent levels. Additionally, adhering to the current limit would keep total debt within the range that, as previously reported, we have been advised would allow us to retain the Town’s AAA credit rating, subject to keeping adequate cash reserves and formalizing certain management policies.

FinCom also believes the range of School Building concepts that fit under the existing debt limit are adequate to meet the needs of the Town. This does not include the “Full Program” concept (FPC), which at its current price tag, exceeds the debt limit, although we note that it is also not being described by the SBC as being “essential”. On the other hand, all other building concepts under consideration, including concepts R, L1, L2, L3, and C fit under the debt limit.

The “Compact C” concept, at \$97mil in total project cost in its “net zero w/ solar” version, is right around the \$97.4mil amount that will be available under the current debt limit as of December, 2018, and thus deserves further discussion. With a projected \$5.5mil Stabilization Fund balance (as of July, 2018) that could be used to directly pay project costs, the total capital available (debt + existing funds) is approximately \$102.9mil.

However, FinCom believes the Town should “keep some powder dry” for future capital needs that, when they occur, might not be possible to defer. The Town should also consider using a portion of the Stabilization Fund to ease resident tax increases in the first year(s).

We are working on an additional recommendation regarding how much room under the debt limit and/or a minimum balance in the Stabilization Fund the Town should maintain, but for now, for the sake of clarity regarding the school building concepts, we have simply agreed that such a buffer will not be larger than \$5.2mil, thus leaving at least \$97.7mil available for current capital projects to fit within this guidance. This means the currently estimated cost of Concept C in its “net zero w/ solar” version fits within this guidance

FinCom anticipates holding at least one more meeting before June 9th where we expect to continue to discuss the above issues, as we attempt to provide as much clarity and guidance to the Town as we can, and we will issue revised or new recommendations as appropriate.

The School Building Project, if approved, would be the largest capital project the Town has ever undertaken in its history, or is likely to undertake for many years in the future, and thus **FinCom strongly recommends that residents put in the effort necessary to become educated on the issues, form a view on what the Town should do, and attend the Special Town Meeting on June 9th and make your voice heard!**