

APPROPRIATION COMMITTEE TOWN OF LEXINGTON



REPORT TO THE SPECIAL TOWN MEETING 2016-3

Released March 14, 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 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 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.

Debate for the articles in Special Town Meeting 2016-3 is scheduled to start on March 21, 2016, therefore this report is being released one week prior to that, on March 14, 2016. This advance report will be distributed to the members of Town Meeting as an electronic document via the Town website.

The contents of this report will also be incorporated into the full report of the Committee to the 2016 Annual Town Meeting. The full report will be published, in both hard copy and electronic form, on March 21, 2016, one week prior to the first session when financial articles in the Annual Town Meeting Warrant are anticipated to be taken up.

Special Town Meeting 2016-3

Analysis and Recommendations

The Warrant for Special Town Meeting 2016-3 contains two Articles with financial implications for the Town. This Special Town Meeting will allow the Town to proceed quickly with a debt exclusion referendum, and to begin the Middle Schools projects under a schedule that is coordinated with the school year.

Article 2016-3.2: Appropriate for Middle Schools – Additions and Remodeling

Funds Requested	Funding Source	Committee Recommendation
\$62,196,247	GF Debt (excluded debt)	Approve (9-0)

This article seeks Town Meeting authorization to borrow \$62,196, 247 to fund renovations and additions to Clarke and Diamond Middle Schools. These projects are the first in an expected series of school construction projects intended to increase school capacity system-wide and thereby help alleviate overcrowding resulting from a recent trend of significant enrollment growth.

A town-wide referendum in the spring of 2016 will request approval of the use of excluded debt to fund the full cost of the middle school renovations. The referendum would also cover previous appropriations totaling approximately \$4.5 million in borrowing for design work already in progress (see below).

Responding to Enrollment Growth in Lexington Public Schools

Student enrollment in Lexington Public Schools (LPS) K-12 has increased from 6,114 students in 2009 to 6,866 in the fall of 2015. Growth is occurring at every level, including preschool, and is projected to continue until at least school year 2020-21 (FY2021), when the total student population is projected to reach about 7,478.

In addition to the middle school projects, 6 modular classrooms (funded under Article 2 of the November 2015 Special Town Meeting #1) will be installed at three elementary schools in late 2016, and the MSBA-supported project to build a new Hastings Elementary School is targeted for completion in the fall of 2019.

Future enrollment growth may require additional capital investment for increased elementary school capacity, a new or expanded preschool, and a new or renovated high school.

The Clarke and Diamond Middle School projects will modify existing space and add additional space to accommodate rising student populations. Enrollment at the middle school level has been growing since FY2010, and it is reasonable to assume that the growth will continue for at least a few more years. Thus, LPS projections of the middle school enrollments based on recent history include continuing growth at least through FY2021. The School Committee has chosen a target total capacity for the middle schools of 1,830 students. This number was the midpoint of enrollment projections for FY2020 (school year 2019-20) developed by the Enrollment Working Group in 2014.

Lexington's middle school students are divided into "teams" of students, and each team has dedicated core subject teachers. Presently, the two middle schools together have capacity for 18.5 teams, but contain 19 teams' worth of students, with overcrowding more severe at Clarke. With large classes of sixth-graders coming in the fall of 2016, there is an urgent need for additional space. These construction and renovation projects will create capacity for three additional teams across both middle schools, increasing capacity to 21.5 teams with 86 students per team, or 1849 students.

Clarke Project

The Clarke project will include a 17,400 square foot addition and 21,600 square feet of interior renovations. The project will increase Clarke's capacity from 9 to 10.5 teams, adding 5 general education classrooms, 2 science classrooms, 3 rooms for art, music, drama and engineering, and improved special education space. Site work around the school will provide better separation of cars and buses and will improve student safety. The construction will occur in phases and is expected to be complete by August 2017, when a large enrollment increase is expected. The total estimated project cost for Clarke is \$21,675,000.

Diamond Project

The Diamond project will include a 36,000 square foot addition and 44,000 square feet of interior renovations. In conjunction with increased sharing of spaces by teachers, the project will increase Diamond's capacity from 9 to 11 teams. The 6 deteriorating modular classrooms currently in use will be replaced with brick and mortar classrooms in a new wing. The addition and interior renovations will also add 3 science rooms, 3 rooms for art, music, drama, and engineering, and improved special education spaces. The kitchen and cafeteria will be relocated to larger spaces to accommodate current and future enrollment growth. Site work around the school will provide better separation of cars and buses and will improve student safety. In addition, the HVAC system, which has reached the end of its useful life, will be replaced. The current HVAC system provides heat and ventilation capabilities. The new HVAC system will be able to heat or cool the building as well as provide ventilation, depending on the seasonal need. The construction will occur in phases, with classroom work to be completed by August 2017, when a large enrollment increase is expected, and the new cafeteria and site work to be substantially completed in mid-2018. The total estimated project cost for Diamond is \$44,940,000.

Although these renovations and additions are not LEED projects, the energy and indoor environmental quality design follow the LEED protocol.

Prior Appropriations Related to Middle School Projects

Plans for building capacity in the Lexington school system began in June 2014, when Town Meeting appropriated \$250,000 to hire a consultant to assist the School Department in developing a master plan for school capacity. The School and Public Facilities Departments hired Symmes, Maini, and MacKee Associates (SMMA) and the School Committee formed the Ad Hoc School Master Planning Committee (AHSMPC) to complete the master plan.

In January 2015, SMMA produced its final report, which identified multiple options for building school capacity system-wide. During the budget collaboration/summit process in early 2015, recommendations of SMMA and the AHSMPC were considered and building options were refined further.

At a March, 2015 Special Town Meeting, the School Committee requested an appropriation of \$4,080,000 to fund further investigation of these options through concept-confirmation studies, design-development work, and construction documents. \$2,467,753 of that appropriation is attributable to design work on the middle schools.

An architecture firm, DiNisco Design Partnership, and project manager/management consultants, Hill International, Inc., were hired. They then worked under the oversight of the middle school principals, LPS administration, community members, the Permanent Building Committee, the finance committees, the Board of Selectmen and the School Committee and completed the design development for Clarke and Diamond by December 2015. Among the many design options considered were (1) those recommended by the AHSMPC and SMMA, (2) building a third middle school and changing the grade configuration to 5-8, and (3) building only at Diamond, but enlarging the addition to accommodate all middle school growth. This process also included cost estimation and value engineering of designs.

At a Special Town Meeting on December 7, 2015, Town Meeting appropriated \$5,386,000 for further design and construction work at several schools, of which \$1,951,000 has been used to develop construction documents for the Clarke and Diamond projects.

Pursuant to a request made by the Chairman of the Permanent Building Committee, consultants from Hill International who had not previously worked on the Lexington projects were hired in January 2015 to conduct a peer review of the Clarke and Diamond designs. The purpose of the review was to test whether the DiNisco designs met capacity goals, satisfied the requirements of the schools' educational programs and were cost-effective compared to other design alternatives. Although Hill identified two alternative design options at Clarke, it was determined that they would not meet educational needs as well as the original design. No design changes were recommended as a result of the peer review process.

The current requested appropriation of \$62,196,247 will fund the Clarke and Diamond projects to completion. The following table summarizes past and current appropriation requests for the middle school projects:

Project Component	Appropriation	Date of Appropriation
Schematic Design/Design Development	\$2,467,753	March, 2015
Construction Documents	\$1,951,000	December, 2015
Construction	\$62,196,247	Requested at STM 2016-3
TOTAL	\$66,615,000	

Financing With Excluded Debt

Because of the school year calendar, and the need for a debt exclusion referendum to finance the majority of this project, work on the middle school project will be split into two phases.

The first phase, estimated to cost \$4,104,940, will fund renovations that must be completed during the summer of 2016 in order to guarantee adequate space for students arriving in the fall of 2016. The second, more significant phase, estimated to cost \$58,091,307, will be completed after the fall of 2016.

Debt service for all the appropriations listed in the table above will be part of a debt exclusion question presented to the voters this spring, but the contract for the first phase of renovations must be signed by the first week of April, before the debt exclusion vote, in order to maintain the targeted occupancy dates. The Town cannot execute a contract without guaranteed funding, so the Town is prepared to fund this initial phase using within-levy debt if necessary. The work associated with the second phase of the appropriation will proceed only if the voters approve a debt exclusion.

This debt exclusion referendum question will not be limited to a dollar amount. Consistent with state law, it will seek approval to finance the complete costs of this project with excluded debt, thus allowing some leeway for further Town Meeting appropriations in the event of unanticipated cost overruns.

History of Debt Exclusions in Lexington

A table with a complete history of prior debt exclusions, amounts, and dates is in the Brown Book (Fiscal Year 2017 Recommended Budget & Financing Plan, February 29, 2016, page ix). The most recent debt exclusion, for the new Estabrook School and renovations at the Bridge and Bowman Schools, was approved in 2012. The largest previous amount covered by a debt exclusion, \$52,235,000, was approved in the year 2000 for renovations at the High School and the two middle schools. The present middle school projects would be somewhat larger in absolute dollar amounts, but not when corrected for inflation (\$52 million in 2000 would be worth approximately \$71.5 million in 2016).

Property Tax Impacts

If, as anticipated, the debt service for these projects is excluded from the limits imposed by Proposition 2½, local property tax bills will be augmented for the duration of the debt service, in this case about 30 years. The debt service comprises both principal and interest payments, with level payments of principal and a declining interest component as the principal is retired.

Assuming that \$66,000,000 is borrowed with a 30-year pay-down schedule, then \$2,200,000 would be due annually for principal. The size of the interest payments depends not only upon the amount of princi-

pal outstanding but also upon the interest rate of the borrowing. Conservatively assuming a rate of 4%, the first full interest payment would be about \$2,640,000. The interest payments would then decline linearly to zero over the term of the bonds. The total of principal and interest due in the peak year would be about \$4,800,000.

With these assumptions, the tax bill impact on the owner of a residence of average assessed value would be an amount in the range of \$350 to \$400 in the peak impact year. After the peak year, which will be within a few years of project commencement, the impact would decline to roughly \$200 in the last year of full principal and interest payments. It is expected that funds from the Capital Stabilization Fund will be applied to mitigate the impact on taxpayers for some portion of the debt service during the peak years.

Committee Comment

The Appropriation Committee supports this request. Committee members are cognizant of the taxpayer impact, particularly in light of other expensive capacity-building projects that are needed at the elementary and high school levels, but are satisfied that appropriate efforts have been made by the School Department and the Public Facilities Department to reduce project costs as much as practicable. Consultants have considered many design alternatives suggested by other boards and committees, undertaken a value engineering process, and subjected the designs to peer review, while remaining on schedule to have new capacity available by the fall of 2017, when enrollment is expected to rise significantly.

The Committee recognizes that if these projects do not move forward, the overcrowding that exists now will become much worse. According to the Superintendent and middle school administrators, class and team sizes would continue to rise, core spaces would become even more compressed, specialist spaces could be sacrificed, and more students could be sent out of district for special education. These conditions would likely result in an unacceptable degradation of educational quality.

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

Article 2016-3.3: PEG Access and Cable Related Fund Acceptance		
Funds Requested	Funding Source	Committee Recommendation
None	N/A	IP

The inclusion of this Article on the Special Town Meeting warrant was motivated by recent changes in State finance regulations that would have required the Town to modify the accounting method used for monies collected by the Town from local cable franchises. These funds are primarily used to pay for services from LexMedia, which provides access to local cable channels and video recording and broadcast for many boards and committees in the Town.

The State has since indicated that the accounting changes may be unnecessary. Therefore, the Town has chosen to defer implementing any changes.

The Committee anticipates that this Article will be indefinitely postponed.