

March 2, 2023

To: MERSD School Committee (SC)

From: Avi Urbas, Director of Finance & Operations

Copy: Pam Beaudoin, Superintendent of Schools

Re: Vote on 3/7/23 to Appropriate Funds and Authorize Borrowing for Turf Field Replacement

Hello, MERSD School Committee. The following is an update on the Turf Field project, including results from the public bidding process, and required action from the School Committee to vote an appropriation (budget) and authorize future use of indebtedness (bonds) to pay for the project. Language for the votes has been provided by attorney Rick Manley of Locke Lord, MERSD's bond counsel, and is included below. Here is the context and a proposed strategy for next steps.

Bid Update

We received 3 bids for construction of the turf fields, all from experienced, well-regarded firms, according to Gale Associates. In accordance with MA General Laws, MERSD is required to award the contract to the company with the lowest price provided that they meet all the requirements in the bid specifications. Based on this criteria, Gale Associates has determined that the winning bidder is Sprinturf, whose construction bid for 2 turf fields is \$1,352,385. This price is approximately \$72K (5.7%) above the \$1.28 million estimate provided by Gale last summer, when MERSD approved the scope of design. For those that recall the \$800K per turf field estimate, those figures also included designer services from Gale Associates for Construction Administration (\$23,500 fixed price included in Gale's original bid proposal), and funds for contingency (i.e., potential change orders). At that time, Gale had included a contingency estimate of 20% of construction costs, but has indicated that 15-20% would be acceptable. To keep the project cost for the construction phase at the original \$1.6 million estimate (i.e., \$800K x 2 fields) would allow for \$224K of contingency, or 16.6% of the construction price, on top of the bid price and Gale's fee.

Project Budget/Appropriation Approval

The next step would be for MERSD to appropriate funds (i.e., approve spending) for the project. Because the procurement and contract for this work is through MERSD, we will need School Committee to appropriate the full budget amount of \$1.6 million, even though funding offsets will come to MERSD from town sources.

Revenue Sources

This project will be reimbursed entirely by the Towns, as discussed previously, so that MERSD can keep reserve funds on hand for a future capital project at Essex Elementary.

Per the MERSD Lease Agreement with Manchester-by-the-Sea (MBTS), the Brook Street Field (aka Coach Field Playground) is a shared use facility, whereby cost of upkeep are split proportionally based on use between MERSD and MBTS. An analysis of this use that has been shared with MERSD's Facility Subcommittee and both Towns has confirmed that a 50/50 split is appropriate. As such, MBTS is preparing to approve \$400K of funding at Town Meeting this April for its 50% share of the Brook Street project. MBTS intends to pay MERSD this amount up front in FY24.

The remaining 50% of the Brook Street project and 100% of the Hyland field project are considered MERSD obligations that will be assessed to both Towns based on the Capital Budget formula in the regional agreement. This \$1.2 million (\$800K for Hyland + \$400K for 50% share of Brook Street) will be apportioned with a split of 66.4% for MBTS and 33.6% for Essex, based on the most recent Equalized Property Valuations ("EQV") from the MA Department of Revenue and town resident populations. These are the same inputs and % splits as seen in the apportionment for the recently \$1.3 million BANs, which can be found in the FY24 Capital Budget (p. C20).

Borrowing Authorization

MBTS has stated its preference to pay for its apportioned share of MERSD's \$1.2 million over time using debt service. Essex would prefer to pay for its apportioned share using up-front, one-time funds, which per bond counsel, would require an inter-municipal agreement between the towns that can be approved by the Board of Selectmen.

Bond counsel has stated that the School Committee needs to authorize borrowing of "up to" the full project amount of \$1.6 million to match the appropriated budget amount, but the vote language acknowledges that the actual amount to be borrowed will be reduced by any one-time funds provided by the Towns, which include the \$400K MBTS contribution for Brook Street and any one-time funds provided by Essex.

Town Approval

Per MA General Laws, after MERSD's School Committee authorizes indebtedness it must notify the Towns within 7 days, and then wait at least 60 days before borrowing. During this time, the Towns have the option to vote at a Town Meeting against the indebtedness, but absent such a negative vote, MERSD may proceed. As a courtesy, bond counsel will provide language to both Towns for a warrant article to approve the indebtedness, even though a supporting vote is not required. This gives both Towns the option to bring this to voters.

Potential Debt Exclusion

The Towns also have the option to ask taxpayers to exclude any debt service from the limits of Proposition 2.5 (aka, a "debt exclusion"). This would need to happen at a Town election, following Town Meeting. Bond counsel will provide this language as well, in the event that either town would like to pursue this option. Even if a debt exclusion is not voted or not approved, MERSD may still proceed with borrowing and assessing the Towns after the 60-day waiting period is up, provided that neither town meeting has voted against the School Committee's authorization of indebtedness.

Timing of Notice to Proceed to Contractors

As discussed previously with School Committee and as indicated in the Turf Field bid package, MERSD will give Sprinturf Notice to Proceed with construction of Hyland Field, following School Committee's affirmative vote to appropriate funds on 3/7/23. Construction of this field will begin after the last day of school and will be complete in time for the start of the fall sports season in mid-August. Notice to Proceed for the Brook Street field will be provided by MERSD after and contingent upon a successful passing of the FY24 Operating Budget by both towns, including any override votes, in mid-May. Even with this delayed start, it is anticipated that the Brook Street turf replacement will be complete by late September.

Timing of Borrowing & Interim Cash Flow

Invoices for the construction phase of the project will not come due until the summer, once FY24 has begun, and project spending is expected to be complete shortly thereafter in September/October. To avoid long-term debt for amounts that may not ultimately be spent (e.g., current contingency estimates), MERSD's plan is to wait until the project is complete to go to market for bonds. Prior to that date, MERSD will use Stabilization reserves, and once depleted, School Choice reserves, to provide cash flow, which will be reimbursed by town contributions and bond proceeds. Such reimbursements will be affirmed when MBTS votes is \$400K share of Brook Street, and for the remainder, once the 60-day waiting period for MERSD's indebtedness authorization has passed. Because MERSD will proceed with a commitment to Hyland prior to these confirmations, the risk is that funds spent from reserves for Hyland may not be reimbursed if the Towns vote against future indebtedness.

Borrowing Cost Estimates and Impact to Capital Budget

Hilltop Securities has provided conservative, preliminary estimates (attached) for borrowing of up to \$1.2 million, which excludes the MBTS up-front payment for Brook Street. In the event that Essex pays for its share of the \$1.2 million using one-time funds, the borrowing would be reduced further to approximately \$800K. Hilltop's analysis shows that MERSD could pay for the fields in 5-years with an annual debt service cost that begins at \$295K in FY25, and declines each year after. Based on this information, there is no anticipated change to the FY24 Capital Budget.

More importantly, the maximum estimate of \$295K addition to the Capital Budget from this project is still less than the \$329K assessment decline in the FY24 Capital budget. In other words, the addition of this debt would still offer taxpayers/towns a net reduction in MERSD's capital taxation/assessments compared to the current year (FY23).

Hilltop also provided draft debt service schedules for borrowing over an 8-year term (the warranty term for the turf fields), but this option was not favored by the Towns' debt service working group representatives. Reasons include that the 8-year term will cost more in total interest expense, the shorter time frame still results in annual net savings to the Capital Budget, and the shorter-time frame will also allow MERSD to finish paying off more/all of the debt by the time an EES project arrives.

MMES and MSHS Debt Service Savings Over Time

Recently, a question was asked at School Committee about savings in the Capital Budget for the Memorial School (MMES) and Middle High School (MSHS) projects. An analysis of this savings is attached, showing that based on borrowing already in place for the project, MERSD has already saved an estimated \$18.4 million in debt service (\$12.3 million for MBTS and \$6.1 million for Essex), compared to estimates provided to voters at Town Meetings when the project was approved. The sources of the savings are more favorable interest rates (3.45% and 1.71%, compared to 5% estimated), shorter duration for a portion of the borrowing (20 year term for the \$3.23 million bonds vs. 30 year estimate for all debt) and \$2.98 million in premium received from lenders that can be used on construction costs and does not require repayment/debt service. Savings are likely to grow because total project spending is expected to be below budget. Additionally, the final MMES bond will likely carry a shorter repayment vs. the originally estimated 30 years, which will reduce total interest costs over time.

An analysis of savings from refinancing of MSHS debt is also attached, showing savings to taxpayers of \$2.03 million (\$1.36 million for MBTS and \$671K for Essex). This refinancing did not extend the timeline for repayment, and took advantage of more favorable interest rates in the market 10 years after the initial debt was issued. These savings provide further evidence of the benefit to taxpayers of MERSD's

strong AA+ credit rating (one step below the highest possible AAA rating) from Standard & Poor's. Of note, a separate analysis performed by School Committee many years ago showed that the MSHS project cost also cost taxpayers much less than expected when the project was initially approved by taxpayers - about half – due to lower interest rates and reimbursement from MSBA, which was not originally expected when the project was approved by voters.

Votes for MERSD School Committee

VOTED: That the Manchester Essex Regional School District (the “District”) hereby appropriates the amount of \$1,600,000 to pay costs of renovating and making extraordinary repairs and other improvements to the District’s outdoor facilities, and for the payment of all costs incidental and related thereto. To meet this appropriation the District is authorized to borrow said amount, under and pursuant to Chapter 71, Section 16(d) of the General Laws, and the District Agreement, as amended, or pursuant to any other enabling authority. The total amount authorized to be borrowed by this vote shall be reduced to the extent of any amounts contributed to pay costs of this project by the District’s member towns, including, but not limited to, the contribution from Manchester-by-the-Sea to pay costs of improvements to Coach Field Playground (also known as Brook Street Field), as well as by any grants or gifts received by the District from any other sources on account of this project.

FURTHER VOTED: That within seven (7) days from the date on which the above vote was adopted, the Secretary be and hereby is instructed to notify the Board of Selectmen or Select Board, as the case may be, of each of the member towns of the District as to the amount and general purposes of the debt herein authorized, as required by the District Agreement and by Chapter 71, Section 16(d) of the General Laws.

Dated	Start	Matures	Project	Debt Issued	Interest through Maturity	Total Obligation	NIC %	Town Meeting Estimated Cost*	Total Savings	Savings/Yr (30 Yr)
2/14/2019	FY-19	FY-49	MMES	\$32,290,000	\$20,069,025	\$52,359,025	3.45%	\$63,015,325	\$10,656,300	\$355,210
8/24/2021	FY-22	FY-42	MMES	\$3,230,000	\$900,705	\$4,130,705	1.71%	\$6,303,484	\$2,172,779	\$72,426
Temporary Borrowing			BAN	\$1,300,000		TBD		\$2,537,006	TBD	
			Total Borrowing	\$36,820,000	\$20,969,730	\$56,489,730		\$71,855,815		
Premium Received from Lenders**				\$2,980,000		\$0		\$5,538,112	\$5,538,112	\$184,604

District/Town Share	\$39,800,000	\$20,969,730	\$56,489,730	\$77,393,927	\$18,367,191	\$427,636
23.7%						

MSBA Reimbursements **\$11,556,684** *Through 2/2023*

Total Funding Received **\$51,356,684** *additional MSBA reimbursements pending*
Project Budget Voted by Taxpayers \$52,232,925

MBTS **\$12,306,018** 67%
TOE **\$6,061,173** 33%
Total Savings **\$18,367,191**
Rounded Apportionment %

**Figures show cost bonds would have carried if issued at 5% interest and 30-year term presented at Town Meeting for vote to approve MMES project*

*** Premium received from lenders fund project costs and do not carry long-term repayment obligations, unlike bonds*

MSHS Bond Refinancing Savings

Dated	Start	Matures	Project	Issued	Interest	Obligation	NIC %	Original + Refunding Total Due			Savings		
								Principal	Interest	Interest	Principal	Interest	Total
1/15/2008	FY-09	FY-33*	MSHS	\$25,000,000	\$13,391,250	\$38,391,250	3.97%	\$24,835,000	\$11,884,900	\$36,719,900	\$165,000	\$1,506,350	\$1,671,350
12/15/2009	FY-11	FY-30**	MSHS	\$5,000,000	\$2,000,417	\$7,000,417	3.33%	\$4,655,000	\$1,983,531	\$6,638,531	\$345,000	\$16,885	\$361,885
8/2/2012	FY-13	FY-23	MSHS	\$1,964,000	\$216,298	\$2,180,298	1.25%	\$1,964,000	\$216,298	\$2,180,298	\$0	\$0	\$0
				\$31,964,000	\$15,607,965	\$47,571,965		\$31,454,000	\$14,084,729	\$45,538,729	\$510,000	\$1,523,236	\$2,033,236
			MSBA	\$17,101,970									
			Total Funding	\$49,065,970		\$47,571,965		\$31,454,000	\$14,084,729	\$45,538,729	\$510,000	\$1,523,236	\$2,033,236

*\$25MM issue refunded after \$10MM paid, and new \$14.835MM bond was issued

**\$5MM issue refunded after \$2.5MM paid, and new \$2.155MM bond was issued

MBTS \$1,362,268 67%
TOE \$670,968 33%
Total Savings \$2,033,236
Rounded apportionment %

Manchester Essex RSD

\$1,200,000 General Obligation Athletic Fields Bonds Dated August 1, 2023

Equal Principal - 5 Years @ 3.25%

****Interest Estimated, Subject to Change****

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
08/01/2023	-	-	-	-	-
08/01/2024	240,000.00	3.250%	39,000.00	279,000.00	-
02/01/2025	-	-	15,600.00	15,600.00	-
06/30/2025	-	-	-	-	294,600.00
08/01/2025	240,000.00	3.250%	15,600.00	255,600.00	-
02/01/2026	-	-	11,700.00	11,700.00	-
06/30/2026	-	-	-	-	267,300.00
08/01/2026	240,000.00	3.250%	11,700.00	251,700.00	-
02/01/2027	-	-	7,800.00	7,800.00	-
06/30/2027	-	-	-	-	259,500.00
08/01/2027	240,000.00	3.250%	7,800.00	247,800.00	-
02/01/2028	-	-	3,900.00	3,900.00	-
06/30/2028	-	-	-	-	251,700.00
08/01/2028	240,000.00	3.250%	3,900.00	243,900.00	-
06/30/2029	-	-	-	-	243,900.00
Total	\$1,200,000.00	-	\$117,000.00	\$1,317,000.00	-

Hilltop Securities Inc.

Public Finance

Manchester Essex RSD

\$1,200,000 General Obligation Athletic Fields Bonds Dated August 1, 2023

Equal Principal - 5 Years @ 3.25%

****Interest Estimated, Subject to Change****

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
08/01/2023	-	-	-	-	-
08/01/2024	150,000.00	3.250%	39,000.00	189,000.00	-
02/01/2025	-	-	17,062.50	17,062.50	-
06/30/2025	-	-	-	-	206,062.50
08/01/2025	150,000.00	3.250%	17,062.50	167,062.50	-
02/01/2026	-	-	14,625.00	14,625.00	-
06/30/2026	-	-	-	-	181,687.50
08/01/2026	150,000.00	3.250%	14,625.00	164,625.00	-
02/01/2027	-	-	12,187.50	12,187.50	-
06/30/2027	-	-	-	-	176,812.50
08/01/2027	150,000.00	3.250%	12,187.50	162,187.50	-
02/01/2028	-	-	9,750.00	9,750.00	-
06/30/2028	-	-	-	-	171,937.50
08/01/2028	150,000.00	3.250%	9,750.00	159,750.00	-
02/01/2029	-	-	7,312.50	7,312.50	-
06/30/2029	-	-	-	-	167,062.50
08/01/2029	150,000.00	3.250%	7,312.50	157,312.50	-
02/01/2030	-	-	4,875.00	4,875.00	-
06/30/2030	-	-	-	-	162,187.50
08/01/2030	150,000.00	3.250%	4,875.00	154,875.00	-
02/01/2031	-	-	2,437.50	2,437.50	-
06/30/2031	-	-	-	-	157,312.50
08/01/2031	150,000.00	3.250%	2,437.50	152,437.50	-
06/30/2032	-	-	-	-	152,437.50
Total	\$1,200,000.00	-	\$175,500.00	\$1,375,500.00	-

Hilltop Securities Inc.

Public Finance