



TOWN OF UXBRIDGE
OFFICE OF THE FINANCE DIRECTOR
TOWN TREASURER/COLLECTOR

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David A. Genereux
Finance Director

DATE: May 6, 2010
TO: Michael Szlosek, Town Manager
FROM: David Genereux, Finance Director *dg*
RE: High School Financing Costs/Tax Rate Impact

I am writing to offer debt scenarios based on the current recommendation by the Massachusetts Scholl Building Authority ("MSBA") for potential construction of a new Uxbridge High School on Quaker Highway. For background, the current project under consideration by the School Building Committee ("SBC"), calls for a six hundred student high school, totaling no more than 123,000 square feet. The MSBA states that the cost of the project can be no more than \$350.00 per square foot with a total of no more than \$43,000,000. In reality, $123,000 * 350 = \$43,050,000$. The maximum grant contribution by the MSBA is set at \$23,000,000 or 56.53% of the total project cost. Bear in mind that the analysis and attached schedules are based on the general grant information as issued by the MSBA, and not specific project cost figures under development by the SBC. Future schedules will be provided, as eligible project costs and reimbursement figures are finalized.

The debt scenarios and tax rate impact is based on the following assumptions:

- 1.) That the project cost will be the full \$43,050,000
- 2.) The Town will receive the full \$23,000,000 MSBA grant, leaving a borrowing of \$20,050,000
- 3.) That there will be a two year construction cycle
- 4.) That long term borrowing rates will begin to rise over the next two years, and that the rate for the project bonds will be 5.50 percent inclusive (Current long term borrowing rates are averaging 4.38 percent according to Bloomberg)
- 5.) That 2010 assessed valuation and average residential valuation (used for tax rate impact) will stay constant over the borrowing period

The table below shows the cost of the four most viable options that were considered:

Option	Description	Project Cost	Average Taxpayer Annual Cost	Total Cost of Project to Average Taxpayer
1	30 years; level debt	\$39,749,075	\$267.16	\$8,015
2	30 years; declining debt	\$36,021,725	\$243.49	\$7,305
3	20 years; level debt	\$32,093,075	\$326.30	\$6,526
4	20 years; declining debt	\$30,518,425	\$311.50	\$6,230

Level Debt vs. Declining Debt:

Most borrowings excluded through Proposition 2 ½ are financed via level debt (Options 1 or 3), including the Town's current exclusions.

Level debt is just that. The annual payments are similar throughout the years of the schedule, in the case of Option 1, between \$1,417,575 and \$1,422,300. This keeps the tax rate impact level through the life of the borrowing.

Declining debt (Options 2 and 4) starts with the highest payment on the schedule in the first year of the permanent debt, and then begins a steady reduction that goes the length of the borrowing. For Option 2, the first year's payment is \$1,822,750. The final payment is \$754,325.

While the annual costs to the Town are greater during the initial years of the borrowing, there is a significant savings in using the declining debt model. Using Options 1 and 2, the 30 year model for comparison, the savings offered by choosing Option 2 over Option 1 is \$3,727,350 or 9.40%. The average taxpayer would save \$710 over the thirty year debt schedule. To realize that savings, the taxpayer will pay the same or more for the first thirteen years of the permanent debt (Increased costs of \$442). For the remaining seventeen years, the overall cost is lower (Savings of \$1,152).

When comparing the level vs. declining debt models for the 20 year schedules, the savings, while still significant, are less dramatic. Choosing Option 4 over Option 3 saves \$1,574,650 or 4.90%. The average taxpayer would save \$296 over the twenty year debt schedule. To realize this saving, the taxpayer will pay the same or more during the first ten years of the project (Increased costs of \$352). For the remaining ten years, the overall cost is lower (Savings of \$648).

Twenty Year Debt vs. Thirty Year Debt:

The other option that must be considered is whether the project debt should be scheduled for twenty or thirty years. With less interest being charged on the project, it will be cost less overall on a twenty year schedule, but the annual payments will be higher. The Town saves \$7,656,000 in choosing Option 3 over Option 1, but the annual cost to the taxpayer is higher by \$71 for the first twenty years. Choosing Option 4 over Option 2 saves \$5,503,300, with an average higher annual cost to the taxpayer of \$68 over twenty years.

Another issue that must be address is the Town's capital plan. The current schedule assembled by the Capital Committee shows capital needs totaling \$29,078,769. While not all of the requests will eventually see funding, the length and expense of this borrowing must be considered as part of the Town's overall strategy for addressing its capital needs going forward.

Recommendation:

Options 1 and 2 are not recommended, as a thirty year borrowing will cost the Town an additional \$7,656,000 or \$3,928,650 over the least conservative twenty year option. That leaves the twenty year issues to consider.

A key issue in choosing between the twenty year options is the potential operational override. Under Option 4, if no override was requested, the first year of the permanent debt issue would require an additional \$436.10 from the average taxpayer. That amount would likely be palatable, considering it would drop by an average \$12 per year. However, an operational override, which would place an additional increase (to be determined) to the average tax bill, may make the high initial payment on the declining schedule cost prohibitive especially if the combined annual tax impact approaches or surpasses five hundred dollars.

In light of that possibility, my recommendation is Option 3, a twenty year borrowing with level debt. While this option requires additional payments of \$1,574,650 over the 20 year declining debt model, and will cost the average taxpayer \$296 more over the term, the reduced annual cost over the first eight years of the permanent schedule may make the difference worthwhile. Under the Option 3, the average annual tax bill for the life of the permanent debt would be increased by \$348.88.

Projected debt schedules for all options are attached to this memorandum. As stated earlier, all of the figures in this memorandum should be considered preliminary and therefore are subject to change.

Please contact me with any questions or concerns.

CC: Board of Selectmen
Finance Committee
School Committee

Option 1: 30 years Level Debt

Total Project Cost	43,050,000
Local Share of Project	20,050,000
Projected Interest Rate on 04/01/10 Notes	3.00%
Projected Interest Rate on 04/01/11 Notes	3.25%
Projected Interest Rate on 04/1/12 Bond	5.50%
2010 Assessed Valuation	1,589,056,020

Fiscal Year	New High School BANS	\$20,050,000 School Bond Dtd 04/12/12	Tax Rate Impact	Cost on Average Bill (Based on FY 2010 Valuation of 311,507)
2010				
2011	601,500	-	0.38	118.37
2012	651,525	-	0.41	127.72
2013	-	1,417,750	0.89	277.24
2014	-	1,420,425	0.89	277.24
2015	-	1,422,000	0.89	277.24
2016	-	1,422,475	0.90	280.35
2017	-	1,421,850	0.89	277.24
2018	-	1,420,125	0.89	277.24
2019	-	1,422,300	0.90	280.35
2020	-	1,418,100	0.89	277.24
2021	-	1,417,800	0.89	277.24
2022	-	1,421,125	0.89	277.24
2023	-	1,417,800	0.89	277.24
2024	-	1,418,100	0.89	277.24
2025	-	1,421,750	0.89	277.24
2026	-	1,418,475	0.89	277.24
2027	-	1,418,550	0.89	277.24
2028	-	1,421,700	0.89	277.24
2029	-	1,417,650	0.89	277.24
2030	-	1,421,675	0.89	277.24
2031	-	1,418,225	0.89	277.24
2032	-	1,417,575	0.89	277.24
2033	-	1,419,450	0.89	277.24
2034	-	1,418,575	0.89	277.24
2035	-	1,419,950	0.89	277.24
2036	-	1,418,300	0.89	277.24
2037	-	1,418,625	0.89	277.24
2038	-	1,420,650	0.89	277.24
2039	-	1,419,100	0.89	277.24
2040	-	1,418,975	0.89	277.24
Totals	1,253,025	39,749,075		8,015
Taxpayer Ave Annual				267.16

Option 2: 30 years Declining Debt	
Total Project Cost	43,050,000
Local Share of Project	20,050,000
Projected Interest Rate on 04/01/10 Notes	3.00%
Projected Interest Rate on 04/01/11 Notes	3.25%
Projected Interest Rate on 04/1/12 Bond	5.50%
2010 Assessed Valuation	1,589,056,020

Fiscal Year	New High School BANS	\$20,050,000 School Bond Dtd 04/12/12	Tax Rate Impact	Cost on Average Bill (Based on FY 2010 Valuation of 311,507)
2010				
2011	601,500	-	0.38	118.37
2012	651,625	-	0.41	127.72
2013	-	1,822,750	1.15	358.23
2014	-	1,783,150	1.12	348.88
2015	-	1,743,550	1.10	342.65
2016	-	1,703,950	1.07	333.31
2017	-	1,664,350	1.05	327.08
2018	-	1,624,750	1.02	317.73
2019	-	1,580,150	0.99	308.39
2020	-	1,540,825	0.97	302.16
2021	-	1,501,500	0.94	292.81
2022	-	1,462,175	0.92	286.58
2023	-	1,422,850	0.90	280.35
2024	-	1,383,525	0.87	271.01
2025	-	1,344,200	0.85	264.78
2026	-	1,304,875	0.82	255.43
2027	-	1,265,550	0.80	249.20
2028	-	1,226,225	0.77	239.86
2029	-	1,186,900	0.75	233.63
2030	-	1,147,575	0.72	224.28
2031	-	1,108,250	0.70	218.05
2032	-	1,068,925	0.67	208.71
2033	-	1,029,600	0.65	202.48
2034	-	990,275	0.62	193.13
2035	-	950,950	0.60	186.90
2036	-	911,625	0.57	177.56
2037	-	872,300	0.55	171.33
2038	-	832,975	0.52	161.98
2039	-	793,650	0.50	155.75
2040	-	754,325	0.47	146.41
Totals	1,253,125	36,021,725		7,305
Taxpayer Ave Annual				243.49

Option 3: 20 years Level Debt

Total Project Cost	43,050,000
Local Share of Project	20,050,000
Projected Interest Rate on 04/01/10 Notes	3.00%
Projected Interest Rate on 04/01/11 Notes	3.25%
Projected Interest Rate on 04/1/12 Bond	5.50%
2010 Assessed Valuation	1,589,056,020

Fiscal Year	New High School BANS	\$20,050,000 School Bond Dtd 04/12/12	Tax Rate Impact	Cost on Average Bill (Based on FY 2010 Valuation of 311,507)
2010				
2011	601,500	-	0.38	118.37
2012	651,625	-	0.41	127.72
2013	-	1,782,750	1.12	348.88
2014	-	1,780,350	1.12	348.88
2015	-	1,781,025	1.12	348.88
2016	-	1,784,500	1.12	348.88
2017	-	1,780,500	1.12	348.88
2018	-	1,784,300	1.12	348.88
2019	-	1,785,350	1.12	348.88
2020	-	1,783,650	1.12	348.88
2021	-	1,784,200	1.12	348.88
2022	-	1,781,725	1.12	348.88
2023	-	1,781,225	1.12	348.88
2024	-	1,782,425	1.12	348.88
2025	-	1,785,050	1.12	348.88
2026	-	1,783,825	1.12	348.88
2027	-	1,783,750	1.12	348.88
2028	-	1,784,550	1.12	348.88
2029	-	1,780,950	1.12	348.88
2030	-	1,782,950	1.12	348.88
Totals	1,253,125	32,093,075		6,526

Taxpayer Ave Annual

326.30

Option 4: 20 years Declining Debt

Total Project Cost	43,050,000
Local Share of Project	20,050,000
Projected Interest Rate on 04/01/10 Notes	3.00%
Projected Interest Rate on 04/01/11 Notes	3.25%
Projected Interest Rate on 04/1/12 Bond	5.50%
2010 Assessed Valuation	1,589,056,020

Fiscal Year	New High School BANS	\$20,050,000 School Bond Dtd 04/12/12	Tax Rate Impact	Cost on Average Bill (Based on FY 2010 Valuation of 311,507)
2010				
2011	601,500	-	0.38	118.37
2012	651,625	-	0.41	127.72
2013	-	2,217,750	1.40	436.10
2014	-	2,156,425	1.36	423.64
2015	-	2,095,100	1.32	411.18
2016	-	2,033,775	1.28	398.72
2017	-	1,972,450	1.24	386.26
2018	-	1,911,125	1.20	373.80
2019	-	1,849,800	1.16	361.34
2020	-	1,788,475	1.13	352.00
2021	-	1,727,150	1.09	339.54
2022	-	1,665,825	1.05	327.08
2023	-	1,604,500	1.01	314.62
2024	-	1,543,175	0.97	302.16
2025	-	1,481,850	0.93	289.70
2026	-	1,420,525	0.89	277.24
2027	-	1,354,200	0.85	264.78
2028	-	1,293,150	0.81	252.32
2029	-	1,232,100	0.78	242.97
2030	-	1,171,050	0.74	230.51
Totals	1,253,125	30,518,425		6,230

Taxpayer Ave Annual

311.50

