

CITY OF NEWTON

IN BOARD OF ALDERMEN

COMMITTEE OF THE WHOLE

WEDNESDAY, MARCH 15, 2006

Present: Ald. Baker (President), Albright, Burg, Coletti, Danberg, Fischman, Harney, Hess-Mahan, Johnson, Lappin, Lennon, Linsky, Mansfield, Merrill, Parker, Salvucci, Samuelson, Sangiolo, Schnipper, Vance, Weisbuch, Yates

Also present were Rob Juusola from Turner Construction Company, and Craig Holmes from Rider, Hunt, Levett and Bailey

From the City: Assistant City Solicitor Gayle Smalley, Building Commissioner Nick Parnell; Chief Administrative/Chief Budget Officer Sandy Pooler; Comptroller David Wilkinson, and Superintendent Jeffrey Young

School Committee members present: Members Sokoloff, Laredo, and Zaleznik

President Baker called the meeting to order at 7:45 p.m. A request for a suspension of the rules to allow the members of the School Committee and the design team within the rail to join the evening's discussion was made and approved and a motion to go into Committee of the Whole was made, seconded, and passed by voice vote.

COMMITTEE OF THE WHOLE

Debt Exclusions, Overrides, and Voter Involvement

Gayle Smalley presented information from her memo of March 10, 2006. She addressed how to calculate the amount of debt exclusion. She stated that the calculation is the total principal and interest payment due net of any reimbursement received from the state or federal government for the project.

On the question of who can docket a Proposition 2 ½ Debt Exclusion, Ms. Smalley found that the provisions of Proposition 2 ½ do not specify who may place a Debt Exclusion proposal before the Board. Thus, it is left to Newton's local rules, which allow that any person may docket an item to propose that the Board approve a debt exclusion. The Mayor, however, must submit the subsequent bond authorization, to the Board.

Ms. Smalley reported that according to the Mass. Department of Revenue, either the city can approve a debt exclusion before, or after, the debt is authorized and issued. The City may also place a package of bond projects in a single ballot question, but

according to the Department of Revenue, it is more typical to see a city or town use separate ballot questions for each project.

Alderman Sangiolo asked if the City decided to do an override after the project was underway, could that new money go to pay the bill for Newton North or anything else we need? Ms. Smalley stated that this could be done. Her response was supported by Mr. Pooler who stated that it could go to pay whatever bills the City wanted to pay.

Alderman Mansfield stated that he felt that doing a debt exclusion after the project had started was not a wise course of action. If the City were faced with the need for additional funds after the project had started, an override would be the better way to go. Alderman Mansfield then stated that if a debt exclusion was passed by the voters before the beginning of the project, and the Mayor chose not to exercise that debt exclusion, which is his prerogative, then the options would become very limited.

Alderman Coletti commented that he saw quite a few options. Unfortunately, some of them were not that great. He believes that this project will have to go forward with a funding source that is accurate. That means that the Mayor will have to request an entire bond for everything less the money that we are going to get from state reimbursement. He cannot come forward with a proposal that talks about the use of new growth, because if it does not materialize then we have to do tax anticipation notes (TANs), bond anticipation notes (BANs), or revenue anticipation notes (RANs). The City will have to borrow money depending on how the Executive Department expects to pay for the project. The board could go forward and approve up to \$80 million in bonds; it does not matter what type, to construct this project and four years down the road the City can be in a position where there is no growth and will have to sell some short term revenue notes to generate the funds to build the building while we wait for the revenue to come in - whether it is tax, state aid, bonds or revenue notes. If none of those materializes, and you now have a debt payment, you can request a debt exclusion override to raise the money to make that payment. It is a fifth way, and the best way, for the city to raise the money. It is pay as you go, so you do not have to pay it down in the future. You can begin raising the money immediately through that capacity. It gives the City some flexibility.

Alderman Coletti went on to say that he would like to see a funding mechanism that is hooked to the hotel/motel tax because that is a known \$1.4 million a year. You could easily sell tax anticipation notes in order to generate the money that is offset by that hotel/motel money as it comes in. We have the debt exclusion option to bridge the gap so that we can continue to move forward.

The Mayor is going to have to ask for the full complement of funding. He cannot come in with a plan to build a new school and build it with 30-years of new growth. That is not a legal funding mechanism because it is invisible money at this point. Aldermen Coletti hopes that the Mayor is not going to try to do that and that the Law Department can clarify that statement. It is impossible to do a project with the financing that way. We are going to have to approve the entire amount in bonds.

Alderman Albright asked if we could do a debt exclusion on some of the bonding and not all of the bonding.

Ms. Smalley emphasized that the ballot question is prescribed by law. The ballot question is about the particular project not the amount - there is no dollar amount on the ballot. Mr. Pooler added that the Department of Revenue also states that if you vote the debt exclusion, but the community has other resources that you want to use to pay the interest and principle payments, the city is not obligated to use property taxes to the full extent.

Alderman Albright asked how you explain to the voters what the impact might be if you cannot include a number?

Mr. Pooler responded that you do a projection of the debt overtime and you assume that the exclusion is going to cover the full cost of it.

President Baker asked if there were any further questions for Assistant City Solicitor Smalley and seeing none, he thanked her and allowed her to depart the meeting. He then introduced Building Commissioner Nick Parnell and Cost Estimator Craig Holmes from Rider, Hunt, Levett and Bailey to discuss cost estimation.

Cost Estimation

Mr. Parnell introduced Craig Holmes and described Rider Hunt and their abilities. He explained that the City has a top-notch consultant, a top-notch project manager, and a top-notch designer in the Gund Partnership. The Gund Partnership brought with them a top-notch estimator in Rider Hunt, which went before the Designer Selection Committee when they were selected. It was because of the strength of the team that the Gund Partnership was selected.

Craig Holmes will refine his estimation numbers when a design is chosen. Mr. Parnell noted that as Building Commissioner he has the responsibility to make sure that the building meets the needs of the students, no more – no less. We are not going to establish a budget and work up to that budget; we will establish a budget that we can work from which we do not want to exceed. We will bring the budget to you when we come forward with a site plan during the site plan approval process.

Alderman Sangiolo asked if a copy of Rob Juusola's comments from the last meeting were available. Mr. Pooler responded that there have been many attempts to see what other schools might cost, but it is difficult because there is a lot of speculation about what might have happened if the school were built today. This is not what Rider Hunt does. What we asked Rider Hunt to do was to provide us with a worst-case scenario cost estimate so that we could put together a financing plan. That is what we have at this point. Later on when we know what the building will actually look like and what it is

going to be made out of, Rider Hunt will give us a new number that we will come back to the Board of Aldermen with to request the funding authorization.

Rider Hunt used in its report examples of other schools as a comparison, but it is not how Rider Hunt does its work. Mr. Holmes explained that what they have done is build a budget plan. This comes from the uniform structure, which looks at a building as a set of elements. At the end of the exercise, you can come up with a derived square footage. Rider Hunt has a database of all of the projects that have been estimated this way. The estimates also take into account the program for the school. The estimated budget did not come into place until there was a program, which included the number of classrooms, the number of science rooms, the number of offices, an auditorium, a library, a gymnasium complex, and a swimming pool. Each of those elements allows Rider Hunt to build a composite rate from the various pieces of the structure to say that on average a classroom in this school, in this model, will be about \$215.00 per square foot, the basic price. If we are adding a science room, it will be more. If adding an auditorium it will be more because of the double height, furniture, ADA requirements, etc. This is a budgeting estimate, not a final cost estimate. Its purpose is to give you a basis for what can be expected.

If you are comparing different schools that are all built at the same time you will have different estimates based on the program. None of the schools included in the comparison have a swimming pool. You have a different site and in some of the examples, the site is included in the estimate and in others, it is not. For the Newton North project, we have counted and priced as budget allowances each of the major site elements over the 27-acre site. The soft costs are fairly well known, and we have built those into the budget. Soft costs include design fees, contingencies, financing costs, anything that is not paid to the contractor.

Alderman Coletti asked about technology and furniture, fixtures, and equipment.

Mr. Holmes responded that there were specific allowances for each that were included in the soft costs.

Alderman Parker asked how the \$81 million in hard costs from the Turner estimate has gone up to \$131 million in hard costs in your estimate.

Mr. Holmes responded that the numbers could get complicated very quickly. He stated that he does not know how Turner created their numbers. Mr. Holmes explained that he started cold and built up the budget. It would be inappropriate to start guessing on how Turner did it. One thing to note is that there will be more site work now than what was in the early proposals. Rider Hunt has also found that construction costs have escalated into the double-digit range in 2005, which is much higher than it has been in a while. Mr. Holmes stated that he built the hard cost estimates with this double-digit escalation in mind and did not escalate the soft costs.

Alderman Parker asked what the cost per square foot is today to build this high school.

Mr. Holmes responded that it is \$239 per square foot, which is within the range of \$195 to \$250 per square foot to build a high school in the Boston area.

President Baker asked for clarification on an earlier question by Aldermen Parker. He asked if there was any need to adjust the report based on the questions and information that Alderman Parker raised and if any of this information changed the analysis.

Mr. Holmes responded that he did look at the figures and they do appear even with escalation to be lower than the rates that are being used for Newton, but that does not change our understanding of the per square foot costs of building a school at the moment. The cost estimates will be in the range that we described. Mr. Holmes made it clear that he was not willing to change his estimates at this time.

Mr. Parker asked if there were two methodologies used in the report, one for the comparison schools and one for the Newton North Project.

Mr. Holmes responded that the other schools that were included in the report were put there to provide some degree of explanation for why the escalation and the pricing were so high. He is standing by the estimates and the way they have been built.

Mr. Parker asked why Newton is being asked to pay over \$400 per square foot when other communities did not pay over \$300 per square foot in Massachusetts.

Craig Holmes responded that the numbers that are included in the table represent a possible range, not a definite "this will cost number." That range can be applied to any project done last year.

Alderman Parker asked that Craig Holmes prepare a comparison of projects from the Rider Hunt database for a future distribution.

Alderman Salvucci stated that costs rise by month including labor costs. The numbers that Mr. Holmes is presenting are just estimates; they could be a lot less. He stated that he does not want to pay \$400 per square foot either and Mr. Holmes is not saying that is happening; it is just an estimate. Let's wait until we have a set of plans to have better estimates.

Alderman Schnipper stated that she appreciates all of the hard work that Alderman Parker has put into this, but you cannot take \$160 million and just divide it by square footage. There are enormous site costs here with this project. We have a tight plot of land. We have a lot of remediation including tearing down the old building. Newton prides itself on taking care of its children in-house including the technical and special needs programs and these are expensive programs. Alderman Schnipper reported

that last fall she read about Wellesley's estimates for a new school, which was larger than we are looking at. They decided for now not to go forward. These estimates are not out of whack with the current estimates that are out there. When the new building is designed and we have harder costs, then we may have to make some choices. We are being appropriately cautious in looking at ranges, but siting is not done and many decisions still need to be made. Just taking the high-end number and dividing it by square footage is simplistic and only raises anxiety. She urged the Board to go forward in a thoughtful manner. We want to do this right.

Alderman Sangiolo asked about the cost estimates that have been done so far and the costs of access to the site. We may have to do reconstruction on Walnut Street. Are these costs included in the estimates?

Mr. Holmes responded that there was an allowance put into the site estimates that allowed for reconfiguration of entry to the site. Whether they are sufficient needs to be seen because there are no plans on the table at the moment.

Alderman Danberg asked about the swimming pool and what the cost per square foot a pool adds to the cost of the project.

Mr. Holmes responded that the allowance for a swimming pool is in the range of \$300 - \$350 per square foot complete. When you look at the whole athletic complex, which is usually in the range of \$225 per square foot, the addition of a swimming pool brings the athletic facilities costs up to the \$275 per square foot range. If you take out the swimming pool, there will be an overall lower square footage and a lower rate for the athletic facilities. Once you have a design you can clarify these costs and calculate for the inclusion or deletion of the pool.

Alderman Parker stated that now is the time to talk about costs, if you wait until we have a plan, it might cost too much.

Alderman Coletti asked if Mr. Holmes had looked at how this project fits into the other projects that will begin to be built in the Commonwealth and if there will be higher costs because of all of the projects that are in the works. What is the bid factor for this project? Is there a premium that we will have to pay to get good contractors to bid on this project?

Mr. Holmes responded that what Rider Hunt is seeing now in public bidding is that there are less bidders competing actively for the standard jobs. This is a trend that must be watched. One of the recent trends that Rider Hunt is just starting to see benefits from is the Construction Manager at Risk strategy where you can appoint a construction manager ahead of the construction bidding time. The CM at Risk has some degree of responsibility and can pre-qualify subcontractors. It is complex, but it has benefits from the point of prediction. You have the ability to select the more high-end contractors; it is not solely based on price. We can see the consistency in the quality and in the subcontractors who are likely to bid.

Alderman Coletti asked Mr. Holmes to create an estimate that targets getting the best of the best in construction in Boston, because this will be one of the largest municipal projects in years. What is the premium that we will have to pay to get a quality construction firm like Suffolk?

Mr. Holmes responded that he would look into that question.

Financing the Project

President Baker introduced Comptroller David Wilkinson to give a presentation on his adjusted analysis of the Mayor's financing plan for the high school project.

Mr. Wilkinson stated that he had met with the Mayor after his last presentation on the budget. The Mayor was taken aback by the financial impact as Mr. Wilkinson was representing it. He asked that Mr. Pooler work with him to take a look at things. Mr. Pooler and Mr. Wilkinson spent a couple weeks looking at the numbers and trying to figure out why they were generating budget impacts that were substantially greater than what the Mayor was expecting to be the case. Try as they could they could not get to a point of agreement until a couple of weeks ago when Mr. Wilkinson came to the realization that the problem was not with the Mayor's new budget plan, but with his estimates of what the Mayor's budget for capital projects would be if the Mayor's new plan was not adopted. Mr. Wilkinson had assumed previously that there was no change in the status quo, that the Mayor would be committing 3% of revenue to capital improvements and debt service. As Mr. Pooler and Mr. Wilkinson went through this process, they came to realize that in the Mayor's plan current revenues were defined as not just total revenues, but total revenues less those School Building Assistance revenues that we were currently committing to the capital stabilization fund. So the scenario that Mr. Wilkinson presented several weeks ago assumed that under the status quo the city would be committing 3% of revenue to capital purposes, subtracted that from the total anticipated revenue each year and got a number of resources available for the operating budget, compared that to the amount that would be available for the operating budget under the Mayor's plan. In reality, what the Mayor had in mind amounted to 3.8% under the status quo if you add the school building assistance reimbursements that will continue to be received on old projects. When you add those to capital purposes in the first 10 years of the plan, there is an impact in the estimate. After 2017, when the reimbursements run out, then the estimates are the same as his first chart. (Mr. Wilkinson's Chart is attached.)

Mr. Wilkinson stressed that this is merely a look at the incremental effect on the budget; we are not taking a step back and looking at this in context of the overall financial condition of the city. Hopefully, down the road, we will be in a better position to look at major policy shifts like this in the context of the overall financial plan.

In the context of new growth, once you make the commitment to take the increases out of new growth, you will have to take the money from somewhere if the new

growth does not materialize. This is being done in an environment where we are cutting back on the resources that are coming from free cash. We are currently committing about \$2.2 million from free cash to the operating budget. Over the next few years that will be reduced by \$500,000 each year. In order to build our financial reserves, which have been depleted over the last few years, it is important to realize that the amount of local non-tax revenue that we are looking at is essentially stable. Any growth in those sources is being used to build reserves and is not available for operating budgets.

Mr. Pooler added that the rationale for not using that School Building Assistance money in the operating budget goes back to the idea that this money is one-time money. You should not use it for salaries because it will run out.

Alderman Sangiolo asked that if we were not doing Newton North, would the SBAP money go to other Capital Projects?

Mr. Pooler responded that it would go to one-time or short-term expenses like paying off bond or capital items.

Alderman Lappin asked Mr. Wilkinson about his comment about new growth and that if the money from new growth does not show up we can get the money from other revenues. She wondered what specific other revenues Mr. Wilkinson was talking about that are not already being used in the current budget.

Mr. Wilkinson replied that they would not be additional revenues; if the \$250,000 from new growth did not materialize, you would have to take it from other revenue source, which means that you would have to cut operating expenditures by that amount. The forecast assumes about \$2 million in new growth and the operating budget impacts are predicated on having that \$2 million in new growth. If that \$2 million does not materialize, we need to add that \$250,000 to the operating budget impact through further budget cuts.

Alderman Baker stated that the plan anticipates a variety of sources including hotel/motel tax, fees and permits, etc. What the Mayor is saying is that he is looking to the hotel/motel tax as part of that, and new growth as part of that, but it is all new growth that comes into the city. If you do not get some of those monies into the city then you will have to cut something.

Alderman Vance stated that his understanding was that the current reimbursements we are getting from SBAP were to pay for a portion of the debt service that we paid when those schools were constructed.

Mr. Wilkinson responded that that was correct.

Alderman Vance went on to say that debt service was paid from funds that were diverted from operating revenues; is that correct.

Mr. Wilkinson responded that some of that debt service is being paid now. There are different ways of looking at it. What the Mayor has chosen to do is to look at it as a non-recurring source and is not trying to match it to the expense.

Alderman Vance stated that the original source of the funds were from the operating budget and asked if we were saying that it is impossible to put those back into operations.

Mr. Wilkinson stated that it is not impossible; it is just the policy that the Mayor is following.

Alderman Johnson stated that we have had to make cuts in the city budget over the last few years and asked Mr. Pooler how much have we had to cut each year? What is the impact on the schools or the departments, what is the actual impact each year? Alderman Johnson asked for a summary over the last 5 to 10 years, whatever is appropriate.

Mr. Pooler offered to follow up with Alderman Johnson at a later date.

Alderman Mansfield asked Mr. Pooler what has happened to the SBAP funds that we have gotten in past years. Have they gone into the operating or capital budgets and were they included in the 3%?

Mr. Pooler responded that since 2001 we have placed the new reimbursements into Capital. The money we had gotten from previous projects went into the operating budget to pay the debt costs. With the new money that started coming in 2001, we started putting into capital stabilization or the debt reserve. This money was above the 3%.

Mr. Wilkinson restated that there will be more money available for the operating budget than there was in his original analysis because he had assumed that 3% of total revenues were to go to capital and that the 3% included the SBAP money. What the Mayor has in mind amounts to 3.8% because he will add the school building assistance reimbursements that will continue to be received on old projects.

The Design Review Committee Process

Alderman Vance commented that he and Alderman Parker as well as some other people have been concerned that the Design Review Committee is not taking into account the fiscal concerns before it. There have been some statements from the Design Review Committee that their task is to look at the aesthetics of the building without worrying about the fiscal consequences. It is our desire to sign and send a letter to the Design Review Committee expressing our sense that it is important for that committee to see that we get a facility that meets the school educational plans in an attractive and functional manner, but does so in a cost effective manner. Alderman Vance has copies of the letter for colleagues to look at and asks anyone who feels the same way to sign the letter.

Alderman Albright stated that she has a deep concern about placing policy decisions about the funding of the building in the hands of the Design Review Committee. We should all be mindful of the cost, but the decision about the cost of the building should not be in the hands of the Design Review Committee. This is a policy decision that should be in the hands of the Mayor, School Committee and the Board of Aldermen.

Alderman Schnipper stated that it is clearly not in their purview of the Design Review Committee, or their area of expertise, and it is not appropriate to have them take on that role at this late date.

Alderman Sangiolo stated that she agreed with Alderman Albright's comments, but the siting of the building is their expertise and they should keep the costs in mind as they consider location.

Alderman Salvucci stated that in all his years as a member of the Design Review Committee, they have never discussed costs as it relates to a building. Their primary function is design, structure, etc., not money. However, it is his intention to ask at the Design Review Committee meeting if they are going to set this building in such a way on the site that it will be an energy-efficient building. Alderman Salvucci thinks that is important. The cost of materials is not in their realm. Let them worry about whether the building will be sound, the materials, is it ADA compliant. If you start adding in the cost, we will build this building 20 years from now. The cost is not their job.

Alderman Mansfield stated that he hoped that Mr. Parnell could take some of these comments to the Design Review Committee. He agrees with Alderman Vance and will sign his letter because there are clear costs associated with options and the Committee needs to think about the cost of the choices it and the program make.

Alderman Coletti stated that he had found the documentation on the building of the main library and will bring it in and have the Clerk print it out so that others can see the process. There was a clear program and a cost estimate that the Board of Aldermen voted on, and then sent the architect to design the building. We had a plan that had a plan and a recipe of what the building was going to be. The problem that he has here is that the estimate does not give us any details. You have to know what you want and you have to step to the plate, the Board of Aldermen, and the Mayor need to come to the plate and put a price tag on it. If it is what the school committee and superintendent wants, then we have to be prepared to say yes so that the building can be designed the way it is proposed. If Alderman Coletti were one of those who were sending the letter this evening, he would make a motion to set \$120 million as the amount and put it to a vote. That would send a message to the people who are in charge of making the decisions. They have to speak. Right now, everyone is silent from the Mayor's Office to the Board of Aldermen as to how much we want to pay for this building. We are not empowered to make something positive happen; we are just going in a big circle. Design Review is chasing their tails and don't know what to do and when they come back with a plan that is too expensive,

and you don't get 16 votes for the bond authorization, then what do you do? You waste another six months because you have to send the architects back to come up with another plan. Cut this and that and suddenly you do not have the school that you want. We have to put a price tag to this, and then send the experts to design it. If we do not put a number to it then the summer will go by and nothing will have happened.

Alderman Samuelson stated that this is difficult to sort out and she wants to get going too, but the Design Review Committee needs to get started on the charge they have been given. This will eventually be in our laps, but they need to do their work.

Alderman Linsky stated that we should let the Design Review Committee do their job, it will eventually be in our lap, and then we will deal with it.

President Baker stated that we have undertaken this process to get a sense of the issues that are coming up with the high school. It is important to let the process go forward and we are trying to make sure that our process is as efficient as possible so that when the Mayor proposes we are empowered to dispose.

Alderman Albright stated that if there is a number that we cannot go over than it should be on the table, but that is not how the process goes and we should follow the process.

Alderman Parker stated that people are tired and they want to move on, but this will be the single largest building project in the city's history. How could the Design Review Committee not be concerned about cost? What Alderman Parker heard from at least two of the Design Review Committee members was that they could not use cost as a criteria. They were told that that was the Aldermen's business. Choices are being made, and will continue to be made, that have fiscal consequences. Because he wants a new high school, he does not want the price tag to balloon beyond the point where we can afford it. That is why he wants to communicate to the Design Review Committee that cost should also be a factor.

Alderman Sangiolo commented that every month of delay adds to the cost. We can go along with the process and if the Design Review Committee ultimately comes up with a plan that is going to cost a lot and we say no and it goes back, then we have just added 2 to 3 months or more of costs - for what? Alderman Sangiolo does not think there is any malice here in trying to figure out a way to get to the point where we can move forward. The impression that she got at the last Design Review Committee meeting was that cost is off the table.

Additional Comments on the Financing Plan

Alderman Coletti stated that the reimbursement from the SBAP is going to be a problem because the money will dry up. The reason we have had some flexibility in the past is because before the Concannon administration, this city never bonded more than \$5 million a year to do capital improvement projects, but we always borrowed at least that

amount. We always were doing projects. If you asked the current administration about the amount of money that has been bonded in the last 8 years for capital projects you would find that in the last 8 years we have not spent anything in four of those years. By not spending and borrowing, our debt has declined. It has given us some flexibility to pay off short-term debt, but work that needs to be done on buildings, like the fire stations, has not been done.

Alderman Coletti asked if there has been any look at moving this to a 25-year financing plan, and would that help to take the pressure off and allow us to do other projects? If there is no money placed in infrastructure for the next 20 years, we will have a bigger problem than we have now.

Mr. Pooler responded that one of the things that you must consider with longer-term notes is the increased interest costs. What we have tried to do is keep interest costs down as best we can. When we start getting new SBAP money for North or South, the first thing that we want to do is to get rid of any bond anticipation notes (BANs) that we have and to avoid borrowing money because we have cash in hand from the state. We will minimize our total bond costs and the total number of bonds that we are selling.

In the past, we have used BANs because there are delays in the money that we are getting from the state. That is the principal reason Mr. Pooler would use BANs in the future. He really hopes that the state will live up to what they are saying and give us the money faster. He would be willing to look at issues of timing, but in general, the less interest we have to pay the better off we are going to be. If in the future we get additional SBAP money over and above the \$46 million, or we get other resources, if we can bring down those terms from 20 years to shorter, that would be a good idea. He wants to recycle the debt as soon as possible.

Alderman Coletti asked if Mr. Pooler would be leveling off the spikes that are showing up in the plan. The spikes make him nervous and where is the money for the other projects? How does the new school fit into the full plan and total picture?

Alderman Danberg agreed with Alderman Coletti. You match debt to the life of the asset. Stringing out the debt for 25 years is conservative enough and allows for money for other projects. The city's debt to revenue ratio is very and our cash position is historically low. It would make more sense to spread the debt out.

Alderman Parker noted that if you can do the project without the additional interest that is an admirable goal. He gives credit to the Mayor for pursuing that goal if they are able to achieve it. The other thing that is admirable is the money that they have stored in the capital stabilization fund.

Over the course of the discussions, there have been a lot of charts and graphs that have been confusing and Alderman Parker asked the Comptroller to put together a chart that he could understand (see attached). The chart looks at the costs of borrowing \$100 million for the high school over 20 years at 5%. The total cost comes to \$152 million or

\$7.6 million a year. Can we afford to tighten the belt by \$7.6 million each year given the difficulties we are seeing in the operating budget now? Alderman Parker thinks we need to look seriously at the debt exclusion option. He does not think it is realistic to dedicate this very large portion of new growth to this one capital project. What is the Comptroller's view on this?

Mr. Wilkinson commented that part of the difficulty is that it would be nice if we had a multiple year forecast and plan that we could look at to put this major policy shift into context. We really do not have that; we look at things year by year. Without knowing what you would have to give up it is hard knowing what to do. Mr. Wilkinson would be uncomfortable not knowing what he would have to give up. What will you do in four years when you have to cut \$1 million from the operating budget? Could you identify \$1 million right now to cut from the operating budget?

Alderman Samuelson stated that this is the discussion that she has been waiting for. She stated that she does not have a lot of confidence in the plan that is being put forward. You only have to look at what we have already had to cut over the past years in the fire, police, and schools. We have to look at other ways of paying for this project.

Alderman Sangiolo stated that the previous budget for \$105 million seemed to work. However, questioned if even that budget was looking at cuts in the operating budget so that they could not provide what the schools are asking for in operations.

Mr. Wilkinson responded that even if you were dealing with the \$104 million project, it did not require another \$250,000 be taken out of general fund revenue, but it did not do anything to affect the 5% cuts in operating budgets that municipal departments have been dealing with for the last 4 or 5 years. The additional \$250,000 each year would be on top of that.

Alderman Sangiolo stated that for the last four or 5 years we have been operating with a budget that does not meet the needs of the city. We have just been getting by, how many times have we had to say to people that we cannot afford it this year. Even with \$104 million figure we would still be cutting.

Mr. Wilkinson stated that at budget time this year he hoped that the Board would be very direct with the department heads about where they see things going in future years. The cuts he has made to date have not been problematic. He has reduced the Comptroller's Department by three or four positions over the last few years without great effect, but we are at the point now where it is having a big effect. There are no funds for training, no funds for staff development. This year a full time staff person will be reduced to part time, a part time position will be eliminated. Mr. Wilkinson would like to talk with the finance committee about his thoughts on what will happen if we have to make another 5% cut next year and the year after that. He would hope that the board would have those same conversations with all the department heads, because everyone is in the same boat.

Alderman Sangiolo commented that she knows how important this project is and she is extremely grateful for the work done at the Williams School. It was one of the lucky schools that got Tier 1 money. The project included a great library, but last year we had to cut back on the Librarian so it is only open 2 days a week. This is not serving the needs of the kids. If we are going to put all this money into capital, but it is not going to serve the needs of the residents and students of this city, then this plan is not going to work.

Alderman Burg stated that she is hearing exactly what Mr. Wilkinson is saying. We are going to have to start to come to terms with the lack of revenue and she thinks that if we are going to build the high school, and she thinks we need the high school, then there are choices to be made. Override has become a word that no one wants to talk about or mention, but the fact of the matter is Alderman Burg thinks we are going to need one. Others have said it as well. Whether it is a debt exclusion, and she is not sure now that she is learning more about it that it would be the way to go, or a more general operational override. It is clear to me that we are going to need to do something and the people in this city are going to have to decide what they are willing to pay for. We have to protect our vulnerable citizens, but we have people in the community who can afford to support the things that they want. It is going to come down to a choice as to what people in this city want and what they want Newton to be.

The FY07 budgeting Process

President Baker asked Mr. Pooler to update the Board on the budget process.

Mr. Pooler noted that Mayor is one month away from presenting the budget to the Board. We have asked the departments to make cuts. We originally asked departments to make a 5% cut, but it is turning out to be less than that for most departments. Some departments will not be cut – fire and police will not be asked to cut nor the school nurses. In other departments, we have tried not to fill vacancies. We have reduced people's hours. There will be some layoffs, but we are trying to keep that to a minimum. There are some things that we cut last year that we will have to put back, because the cuts just did not work. We have some significant challenges on the operating side. If we look at health insurance, Mr. Pooler estimates that we will see an increase of \$800 to \$1000 per employee. That is the city's share. The average city employee makes somewhere around \$58,000 per year. The increase in health costs represents a 1.8% increase in compensation; the question is how much room is left on the table for wages. We will have to grapple with the health insurance cost issues. We have to make some decisions about how we share those costs with employees and how we compensate them. The health insurance and energy costs may be a bit better than the estimates, but we still have a gap to close.

Alderman Vance stated that over the last few years we have had some problems with the operating budget and have had to make cuts. He expressed his hope that the Mayor will be candid with the public about the realities and what we are losing. It is also

incumbent on the Mayor to discuss the cuts and explain why he believes that no operating override or debt exclusion is needed to do all the things that he wants to do.

President Baker concluded the evening by saying that this would be the last of this series of meetings on the Newton North High School Project for the time being. A motion to go out of the Committee of the whole was offered, seconded and voted unanimously. Alderman Weisbuch offered a motion to adjourn. The motion was seconded and voted in the affirmative.

Attachments:

Comptroller's Chart for borrowing \$100,000,000

David Wilkinson's Revised Financing Chart

Letter from Michael Jellenik relating to the work of the Citizen Task Force on
Renovating Newton North High School

CITY OF NEWTON
 SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS - \$100 MILLION BORROWING - NNHS

<u>Year</u>	<u>Principal</u>	<u>Balance</u>	<u>Interest</u>	<u>Total</u>
	100,000,000		5.00%	
1	5,000,000	100,000,000	5,000,000	10,000,000
2	5,000,000	95,000,000	4,750,000	9,750,000
3	5,000,000	90,000,000	4,500,000	9,500,000
4	5,000,000	85,000,000	4,250,000	9,250,000
5	5,000,000	80,000,000	4,000,000	9,000,000
6	5,000,000	75,000,000	3,750,000	8,750,000
7	5,000,000	70,000,000	3,500,000	8,500,000
8	5,000,000	65,000,000	3,250,000	8,250,000
9	5,000,000	60,000,000	3,000,000	8,000,000
10	5,000,000	55,000,000	2,750,000	7,750,000
11	5,000,000	50,000,000	2,500,000	7,500,000
12	5,000,000	45,000,000	2,250,000	7,250,000
13	5,000,000	40,000,000	2,000,000	7,000,000
14	5,000,000	35,000,000	1,750,000	6,750,000
15	5,000,000	30,000,000	1,500,000	6,500,000
16	5,000,000	25,000,000	1,250,000	6,250,000
17	5,000,000	20,000,000	1,000,000	6,000,000
18	5,000,000	15,000,000	750,000	5,750,000
19	5,000,000	10,000,000	500,000	5,500,000
20	5,000,000	5,000,000	250,000	5,250,000
Total	<u>100,000,000</u>		<u>52,500,000</u>	<u>152,500,000</u>

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CITY OF NEWTON
GENERAL FUND CAPITAL EXPENDITURES
10 YEAR PERIOD 1996 - 2005

	<u>Debt Maturities</u>	<u>Special Appropriations</u>
2005	4,618,200.00	2,073,148.00
2004	4,281,100.00	2,052,649.00
2003	4,878,900.00	2,227,388.00
2002	4,884,800.00	1,960,932.00
2001	4,474,600.00	1,513,077.00
2000	4,969,400.00	3,058,517.00
1999	4,110,000.00	3,736,826.00
1998	4,054,900.00	2,357,724.00
1997	3,735,000.00	3,992,852.00
1996	3,640,000.00	4,222,439.00



CITY OF NEWTON, MASSACHUSETTS

CITY HALL

1000 COMMONWEALTH AVENUE

NEWTON CENTRE, MA 02459


TELEPHONE (617) 796-1305

dwilkinson@newtonma.gov

David Wilkinson, Comptroller

March 1, 2006

TO: Board of Aldermen

FROM: David Wilkinson 

SUBJECT: **Mayor's Multi-Year Capital Financing Plan**

Over the past several days, Sandy Pooler and I have spent a considerable amount of time re-analyzing the projected impact of the Mayor's new capital financing plan on the operating budget of the City. The reason for this reexamination is that the impacts reported in my previous reports have significantly exceeded the impact that the Mayor indicates that he had anticipated.

After a careful consideration of the facts, it is my conclusion that the definition of the current capital spending policy is at the root of the unexpected difference in operating budget impact. My previous reports have assumed that the current policy is to designate 3% of total revenues to capital purposes – debt service; pay-as-you-go capital improvements; and contributions to the Capital Stabilization Fund for future capital expenditure purposes. It is now my understanding that the Mayor's plan is based upon an assumption that the current policy involves a 3% of revenue commitment to debt service alone. Other capital purposes, most specifically contributions to the Capital Stabilization Fund for future capital expenditure purposes are considered to be in addition to the 3% of revenue dedicated to debt service. As a result, our current commitment to all capital purposes is 3.8% instead of 3.0%.

The redefinition of the Mayor's current capital policy from 3% of revenue to 3.8% revenue has the effect of changing impact of the plan fairly dramatically in the first 10 years.

The effect of this redefinition of just what the current capital financing policy is is presented in Column 7 of the attached schedule.

CITY OF NEWTON, MASSACHUSETTS
MAYOR'S MULTI-YEAR CAPITAL FINANCING PLAN
IMPACT ON ANNUAL OPERATING BUDGET RESOURCES

Year	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	% of Operating Budget
	Available for Annual Operating Budget	Current Plan (1)	Mayor's Proposal (2)	Difference Between Operating Budget under Columns 1 and 2	Revised Current Plan (3)	Available for Operating Purposes	Difference Between Operating Budget under Columns 5 and 6	
		Mayor's Proposal (1)	Mayor's Proposal (2)	% of Operating Budget	% of Operating Budget	Mayor's Proposal		% of Operating Budget
2006	236,237,014	236,237,014	236,237,014	0.1%	236,237,014	236,237,014	1,670,650	-0.7%
2007	243,906,159	243,906,159	(277,756)	0.1%	241,957,752	243,628,402	38,102	0.0%
2008	251,572,252	250,687,066	(885,186)	0.4%	250,687,066	250,687,066	(179,481)	0.1%
2009	259,291,402	256,591,079	(2,700,324)	1.0%	256,591,079	256,591,079	(434,724)	0.2%
2010	265,462,077	262,814,803	(2,647,273)	1.0%	263,249,527	262,814,803	(713,398)	0.3%
2011	271,730,686	270,050,247	(1,680,439)	0.6%	270,763,645	270,050,247	(926,603)	0.3%
2012	279,592,149	277,698,505	(1,893,643)	0.7%	278,625,108	277,698,505	(1,139,174)	0.4%
2013	287,649,070	285,542,855	(2,106,215)	0.7%	286,682,029	285,542,855	(1,358,745)	0.5%
2014	295,659,214	293,588,174	(2,071,039)	0.7%	294,946,920	293,588,174	(1,570,024)	0.5%
2015	304,121,776	301,839,458	(2,282,318)	0.8%	303,409,482	301,839,458	(1,463,484)	0.5%
2016	312,794,767	310,618,989	(2,175,778)	0.7%	312,082,473	310,618,989	(2,011,965)	0.6%
2017	320,992,499	318,980,535	(2,011,965)	0.6%	320,992,499	318,980,535	(2,221,240)	0.7%
2018	330,102,196	327,880,956	(2,221,240)	0.7%	330,102,196	327,880,956	(2,429,830)	0.7%
2019	339,438,437	337,008,606	(2,429,830)	0.7%	339,438,437	337,008,606	(2,637,726)	0.8%
2020	349,006,865	346,369,138	(2,637,726)	0.8%	349,006,865	346,369,138	(2,844,920)	0.8%
2021	358,813,263	355,968,343	(2,844,920)	0.8%	358,813,263	355,968,343	(3,051,402)	0.8%
2022	368,863,558	365,812,156	(3,051,402)	0.8%	368,863,558	365,812,156	(3,257,164)	0.9%
2023	379,163,825	375,906,661	(3,257,164)	0.9%	379,163,825	375,906,661	(3,462,197)	0.9%
2024	389,720,291	386,258,094	(3,462,197)	0.9%	389,720,291	386,258,094	(3,666,493)	0.9%
2025	400,539,339	396,872,846	(3,666,493)	0.9%	400,539,339	396,872,846	(3,870,042)	0.9%
2026	411,627,508	407,757,466	(3,870,042)	0.9%	411,627,508	407,757,466	(4,072,837)	1.0%
2027	422,991,504	418,918,667	(4,072,837)	1.0%	422,991,504	418,918,667	(4,274,869)	1.0%
2028	434,638,198	430,363,329	(4,274,869)	1.0%	434,638,198	430,363,329	(4,441,851,196)	1.0%
2029	446,574,634	444,185,196	(2,389,437)	0.5%	446,574,634	444,185,196	(1,762,583)	0.4%
2030	458,808,029	457,045,446	(1,762,583)	0.4%	458,808,029	457,045,446		

{1} 3% of revenue for capital purposes.
{2} \$140 million NNHS project with \$46.6 million in state assistance and \$3.5 million in other capital projects each year.
{3} 3.8% of revenue for capital purposes.



NEWTON-WELLESLEY
HOSPITAL

March 9, 2006

MICHAEL S. JELLINEK, MD
PRESIDENT

Members of the Newton Board of Aldermen
c/o R. Lisle Baker, President
Newton City Hall
Newton, MA 02459

2006 MAR - 9 PH 3: 56
CITY CLERK
NEWTON, MA. 02159

Dear President Baker and Other Members of the Board:

As you may recall, it was my privilege to chair the Newton North High School Citizens Task Force, and also to supervise Newton Wellesley Hospital's expansion, the special permit for which was voted by the Board last year.

I understand that some questions were raised at a recent meeting of the Board about the Task Force decision regarding renovating the existing High School and how it compared to the ongoing work on the Newton Wellesley Hospital. I hope that this letter will provide the Board some useful information as to both.

First, as to the high school renovation, one of the key questions concerning the Newton North High School (NNHS) project was whether the renovation could be done with all or some students remaining in the building during construction. The NNHS Citizens Task Force considered this question carefully, and overwhelming, voted against this approach for the following reasons:

Time

The greater the occupancy, the more phases and time would be needed for completion. Even if 75% of the students were out of the building, the set of modifications in the original plan would take four years. Greater occupancy would increase the duration to six or even eight years. Extensive dependence on summer work was possible, but would add risk as any delay over the summer would disrupt the next school year. A major additional concern was the public contractor bidding process over a 4-8 year period. Each element added risk and cost especially to such an extended process. The consequence to the education of 2000 students was of serious concern.

Disruption

Disrupting the integrity of the high school experience for several thousand students over at least one and likely two full cycles of students was felt to be too high an educational price and could threaten the core character and culture of NNHS.

Safety

The risks to teenage students over a multi-year process were felt to be serious and included (1) worksite containment, (2) dust and particles, (3) air quality, (4) hazardous materials, including asbestos, (5) mold, (6) noise and vibration, (7) odors, (8) air temperature, and (9) overall site safety. In a phased approach the HVAC system might only be upgraded rather than replaced which was felt to be less than optimal.

Technology

Could the original plan meet the current and future technology needs of a modern high school? The renovation of the NNHS posed difficulties in wiring, multiple wall penetrations, etc.

Feasibility and Other Concerns

Mr. Welch and Ms. Black reviewed the phasing of the Newton South High School project and the related difficulties with safety, timing, and dealing with contractors, etc. The task force, after being fully briefed on the proposed renovation, questioned Mr. Amster and Mr. Franceschi of DRA intensely about their safety concerns, previous experience with phased construction in schools, and alternative approaches to renovation that might be feasible. The task force also asked for an outside review of Mr. Amster and DRA's opinion concerning the feasibility and risks of renovation of Newton North. An excellent firm, Environmental Health and Engineering (EHE), reviewed the project and suggested that a carefully crafted, multi-year plan for renovation may be feasible. A vigorous, frank debate ensued within the task force with participation by Mr. Amster and EHE. At the end of the discussion 22 of the 26 members in a straw vote said that a phased renovation approach using modulars or a small hybrid classroom addition was not a safe or fiscally sound value.

The task force had additional concerns beyond the feasibility and value of renovation. Other considerations weighting against the renovation were the desire to allow adequate, natural light into all classrooms, the esthetic criticism of the building, the isolation of the administration offices, and the future needs

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NEWTON NORTH HIGH SCHOOL
OFFICE OF THE SUPERINTENDENT
100 STATE STREET
NEWTON, MA 02459

in science and vocational courses. Lastly the building is and will be heavily used as a community resource in the evenings and weekends. This heavy use and low level of current maintenance was a concern.

Project Control

A tightly monitored, multi-year, multi-phase project requires a degree of collaboration between the city and public contractor that is not consistent with current experience and incentives. The lack of common incentives, control, unforeseen complications, dispute resolution process all add to the risk and cost of the original proposal.

Value

Phasing, inflation, transportation, monitoring, use of alternate facility, modular rentals etc. were all costly expenses that had no lasting value to the educational mission. (The original scope (\$39M) with phasing was estimated at \$50M).

*

As you know we are involved in the construction of a new emergency room at Newton Wellesley Hospital (NWH), an addition not a renovation. How can this project be done when compared to the NNHS project?

Time

The hospital project is a new 80,000 sq.ft. addition being built on the roof of a structure built 10 years ago. The original building was designed for an addition and is in an area sealed from all hospital operations. The project will take only 16 months.

Disruption

The hospital project is self-contained and does not impact any current areas of patient care. Careful planning has allowed us to maintain employee parking and egress from the loading dock. Only employees (all adults) were impacted by walking near the construction site.

Safety

The hospital project could be contained at the rear of the campus with clear paths for employees and no patient impact. There was no connection between construction activity and the hospital systems (HVAC, electrical, etc.). Construction on top of the Operating Rooms was monitored for vibration

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CITY OF NEWTON
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on a minute-by-minute basis. Any "join to old work" was done at night when the Operating Rooms were empty. The extent of this work was moderate as the building was designed for an addition. Being new construction, there was no demolition.

Value and Technology

At the hospital, all construction was new, with no renovation or retrofitting, allowing the highest and best use of space and technology. Built in flexibility, floor to ceiling heights, technology conduits, access to natural light and "green" standards were all part of a new design. (Inflation for Newton Wellesley's project was estimated at 4%, but has run over 9% over the last year, adding almost \$4 million to bring the total project cost to \$78 million.)

Project Control

The architects and contractors were the same that had designed and built the original building and operating rooms (Turner). They know the hospital well and had shared incentives for safety and timely construction.

*

As you can see, there is little similarity between the original NNHS project and the current construction at NWH.

Conclusions

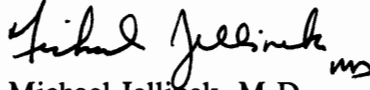
The Task Force concluded that the scope of the work envisioned in the original \$39M plan for the renovation of Newton North is inherently flawed, and that the original scope of work can only be completed at a cost that is significantly (\$70M) above the estimated budget. There are three major contributors to this increase: 1) higher-than-anticipated renovation costs; 2) student relocation costs for modular classrooms, the Carr School, and career and technical education alternatives; and 3) unbudgeted safety costs as confirmed by the consultant, Environmental Health and Engineering, Inc. An additional factor impacting all the estimates is inflation. (I understand that even these costs have escalated significantly since the Task Force report.)

The student population would have to move from the existing building to modular classrooms built in the athletic fields and to the former Carr School building. Some or all of the career and technical education programs would move off-site, which may put the program at long-term risk. The public bidding laws and procedures complicate maintaining safety standards and assuring the construction schedule. In sum, the Task Force could not identify a safe, educationally viable, and financially sound

plan that would allow the students to remain in the current classrooms during renovation.

I hope this review and information is helpful.

Sincerely yours,



Michael Jellinek, M.D.

MJ/hk

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CITY CLERK
NEWTON, MA. 02159