

## MEMORANDUM

TO: Board of Aldermen, School Committee

FROM: Sandy Pooler, Chief Budget Officer

DATE: June 19, 2003

RE: **High School Project – Debt Funding Proposal**

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The Mayor has asked me to forward to you copies of his plan for funding the high school projects. Attached to this memo are copies of a PowerPoint presentation as well as a one page memo prepared by Al Tosti, the City's financial advisor. I look forward to discussing this plan with you and welcome your questions and comments.

This funding plan is designed to fund the large hybrid recommended by the High School Task Force. It shows that the recommended hybrid can be built and paid for using existing financial resources, assuming that certain policy recommendations contained in the plan are adopted. The most important of these recommendations are:

1. Extend bond terms to the maximum allowed by law. Massachusetts law allows cities and towns to bond for up to 20 years for school projects. Additionally, communities may issue Bond Anticipation Notes (BANs), but in no case can the combination of the BANs and bonds exceed 25 years. The Mayor's plan assumes the City will issue BANs for nine years and bonds for 16 years.
2. The City will continue to commit approximately three percent of available revenue to debt service. In order to approximate that ratio into the future, this plan started in FY2001 when the City spent \$6.3 million on general fund debt service. It assumed that that amount will grow each year; from FY01 through FY03, that increase was one percent per year. From FY04 forward, that increase will be two percent.
3. The City has other capital needs for which it will have to issue debt. Those needs exist for both the municipal and schools departments. Starting in FY2006, the City will begin borrowing money every year for other capital needs. We will begin by borrowing \$4 million in FY06 and will increase that amount into the future by 2.5% per year. We will increase that amount in order to keep pace with inflation and to return capital spending levels that were comparable to amounts the city spent prior to the high school projects.
4. The City will continue to use the capital reserve fund established at the beginning of the high school renovations. The reserve fund will contain SBAP reimbursements from projects since, and including, the middle school renovations, the Tier One elementary school renovations, the high school renovations, and any other future eligible projects.

**Pages 2-4. Assumptions**

These pages list the important assumptions that form the basis of the plan, including timing of debt issuance, interest rates, SBAP reimbursement, and capital reserve growth policies.

**Page 5. High School Costs, Probable timeline.**

This table shows the amount of money the City of Newton will borrow and spend during the construction and renovation of the two high schools. For example, in FY01, the total amount to be borrowed and spent was \$5,700,000. This is the amount in docket item #268-00(A), for the design of the projects.

**Page 6. Annual Costs for Two High School Projects.**

This page shows in graphic form the same figures as the table on the previous page. Spending at both high schools started in FY01. In FY02, spending at NSHS increases dramatically, as construction of new classroom space begins. In FY05, the level of spending at NSHS tapers off. In FY04 the plan anticipates spending at NNHS will start up again and will continue through in FY08.

**Page 7. High School Total Annual Costs.**

These pages shows the annual cost of repaying the debt incurred to finance the high school projects. In FY02 through FY10, the City will employ Bond Anticipation Notes (BANs) to finance the projects. During those years, the City will make interest payments only. Starting in FY11, the City will begin paying down the principal. This repayment schedule is designed to match the repayment of principal with the receipt of reimbursement from the State Building Assistance Program (SBAP).

**Page 8. High School Project Total Costs and SBAP Reimbursement.**

This graph shows the total costs of the high school projects, the timing of state reimbursement from SBAP, and the costs the City will finance above SBAP reimbursement.

**Page 9. Annual Borrowing Citywide.**

This graph shows annual borrowing costs across the City of Newton of all the capital projects for which the City will borrow funds. The graph shows spending for the last two phases for the Tier One Project (the Williams and Memorial-Spaulding Schools), the High School Projects, and future capital spending. Beginning in FY06, this financing plan anticipates the City will be able to borrow \$4 million per year for various capital projects across the city.

**Pages 10. Net Annual Debt Service and Target Debt Cost.**

The first line of the table is Net Annual Debt Service, i.e., the actual annual debt costs, less any SBAP reimbursement each year. The second line is the Target Debt Cost, an amount equal to approximately 3% of the annual operating budget of the City. In FY01, it represents the actual amount budgeted for debt service. Debt service is supported by General Fund revenue (e.g., property taxes, excise and hotel taxes, fees, interest income, etc.). Debt service supported by General Fund revenue will remain approximately 3% of overall General Fund revenue each year of the two high school projects. Since General Fund revenue increases each year, the Target Debt Cost number also increases, in this case by 2% annually.

**Page 11. Capital Project Reserve Balance**

This chart graphically depicts the Capital Project Reserve Balance over the course of payment for the high school projects.

**Pages 12-14. Spreadsheet pages**

These pages show the full detail of the funding plan and are the source of the information from the previous pages.

## CITY OF NEWTON

### PROJECTED STATE SCHOOL FINANCING SCHEDULE

**Current school positions on SBAP Priority List:**

Williams	#66	\$61m
Memorial Spaulding	#137	\$124m
South High School	#171	\$170m
North High School	#173	\$174m

**Projected first year payment schedule:**

	<u>Number Cumulative Funded Increase</u>	<u>Payment Year</u>	<u>Yearly Increase</u>	
	14	2005	\$13m	\$13m
	31	2006	\$13m	\$26m
	60	2007	\$30m	\$56m
Williams	96	2008	\$30m	\$86m
	133	2009	\$30m	\$116m
Memorial	166	2010	\$30m	\$148m
High Schools	228	2011	\$30m	\$178m

The City will start to receive School Building Assistance Program (SBAP) funding for a project in the year when the SBAP has started to fund all other projects before it. For example, the Williams School is number 66 on the SBAP list. It will receive reimbursement once 96 projects are funded (in FY2008), because it falls into the range from 61 – 96.

City Of Newton  
High School Project Debt  
Funding Proposal

Sanford Pooler  
Chief Budget Officer  
June 2003

# Assumptions

- Fund Task Force recommended Large Hybrid
- Use existing financial resources
- SBAP will reimburse 60% of costs
- SBAP Payments will start in FY11
- Total costs of NNHS project will be \$85.9 million  
= \$84 million for new hybrid + \$1.9 million for  
previous expenditures.
- Funding is possible because of the use of a capital  
reserve fund.

# Assumptions

(Cont.)

- Interest Rates:
  - Bond 5%
  - Bond Anticipation Notes (BANs): 2%-4%
- Length of Bonds: 16 years
- G.F. Debt Service will be approximately 3% of revenue
- G.F. Debt Service target will grow 2% annually

# Assumptions

(Cont.)

- New Projects: Start Borrowing \$4 Annually in FY06
- Increase borrowing each year by 2-2.5%
- Half of new borrowing for city and half for school projects
- SBAP will reimburse new school projects at 50%

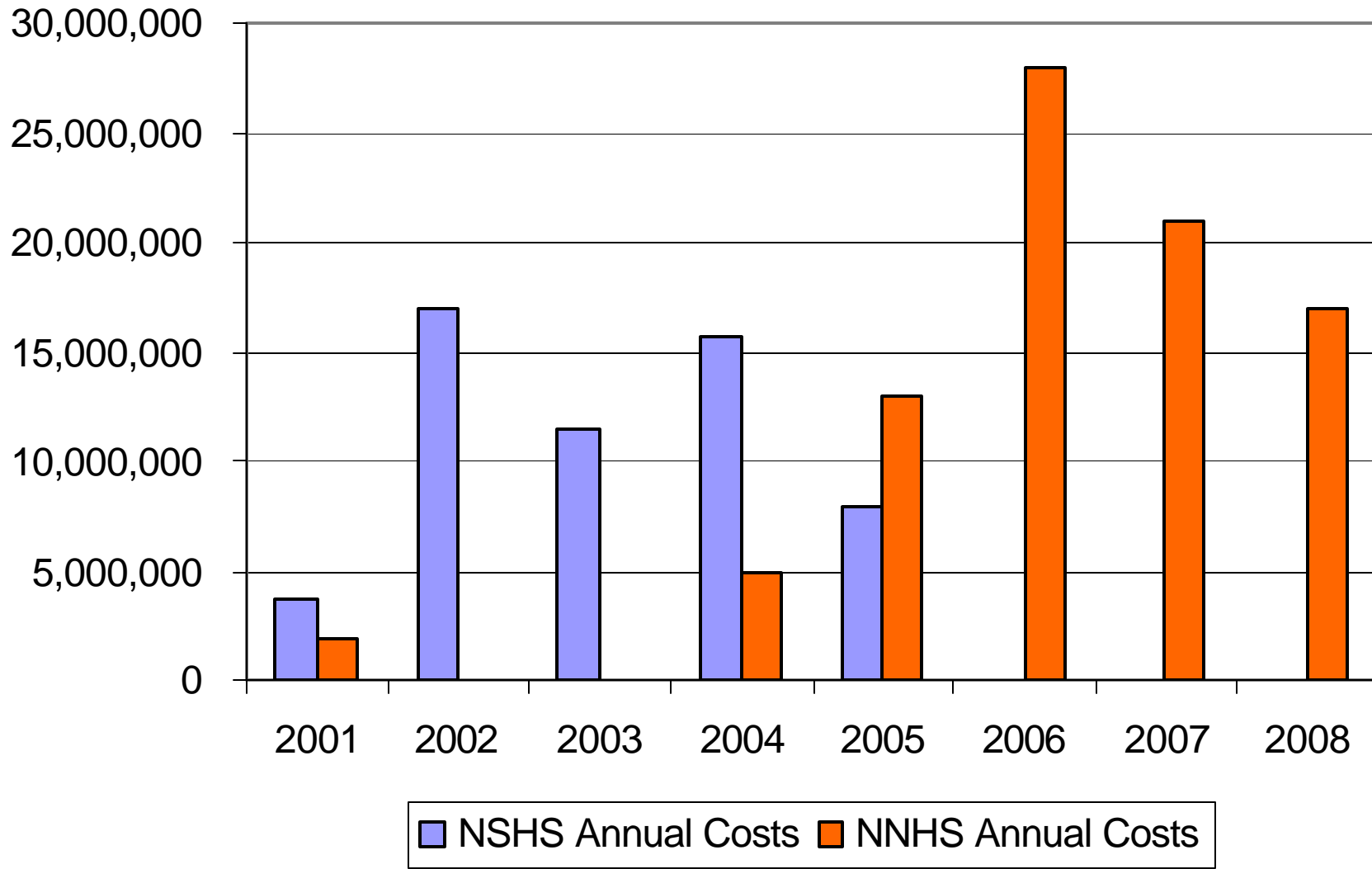
# High School Costs

Probable timeline

Fiscal Year	2001	2002	2003	2004	2005	2006	2007	2008
<b>NSHS</b>	3,770,000	16,950,000	11,500,000	15,639,946	8,008,083			
<b>NNHS</b>	1,930,000	0	0	5,000,000	13,000,000	28,000,000	21,000,000	17,000,000
<b>Total</b>	5,700,000	16,950,000	11,500,000	20,639,946	21,008,083	28,000,000	21,000,000	17,000,000

<b>NSHS</b>	<b>\$55,868,029</b>
<b>NNHS</b>	<b>\$85,930,000</b>
<b>Total Costs</b>	<b>\$141,798,029</b>

### Annual Costs for Two High School Projects



# High School Total Annual Costs

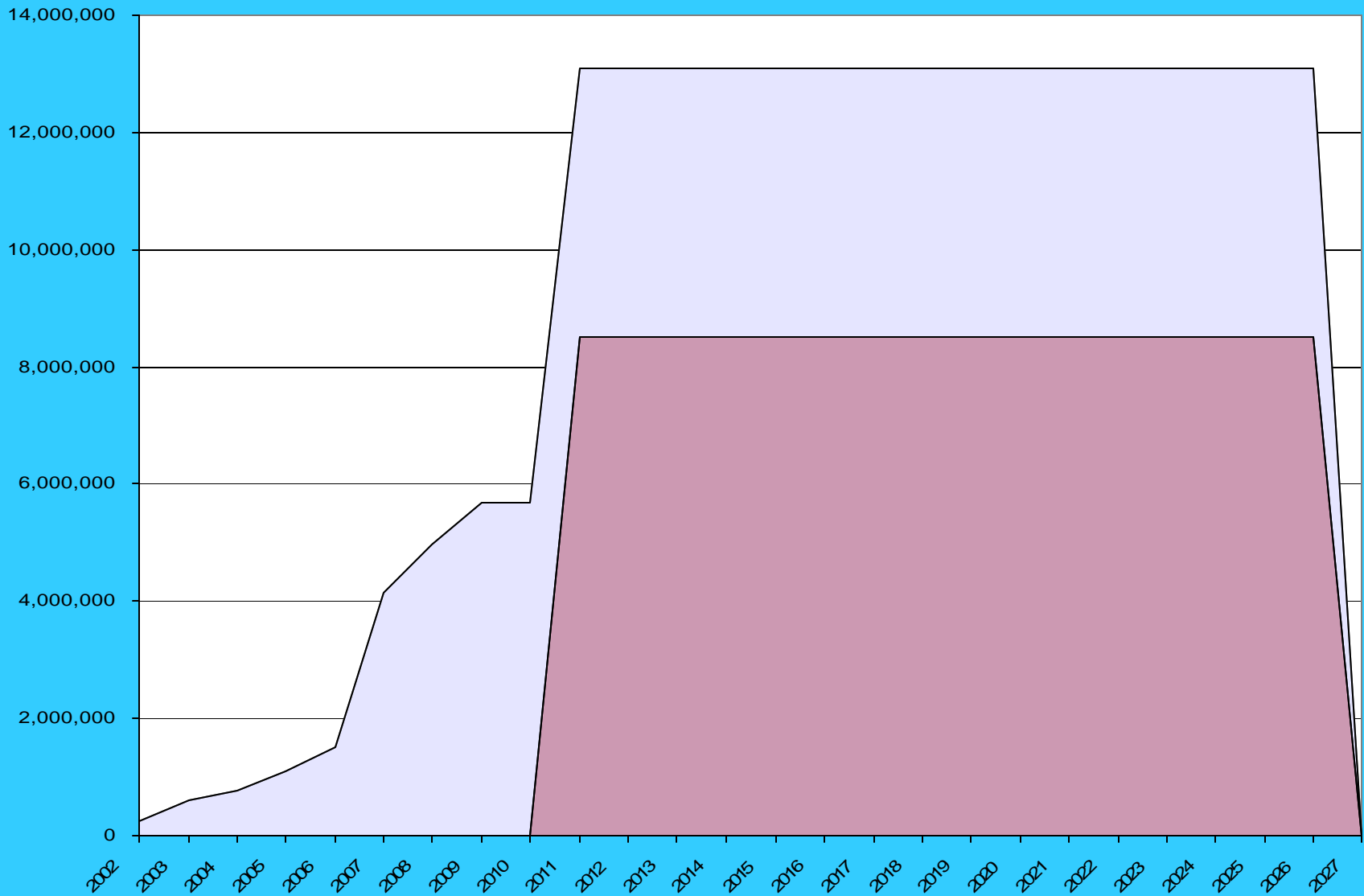
## Principal and Interest Payments

Fiscal Year	2002	2003	2004	2005	2006	2007	2008	2009
NSHS	165,880	567,004	736,474	957,199	1,117,361	2,234,721	2,234,721	2,234,721
NNHS	84,920	21,273	62,401	138,600	398,600	1,917,200	2,757,200	3,437,200
Total	250,800	588,277	798,875	1,095,799	1,515,961	4,151,921	4,991,921	5,671,921

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
NSHS	2,234,721	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938
NNHS	3,437,200	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753
Total	5,671,921	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691

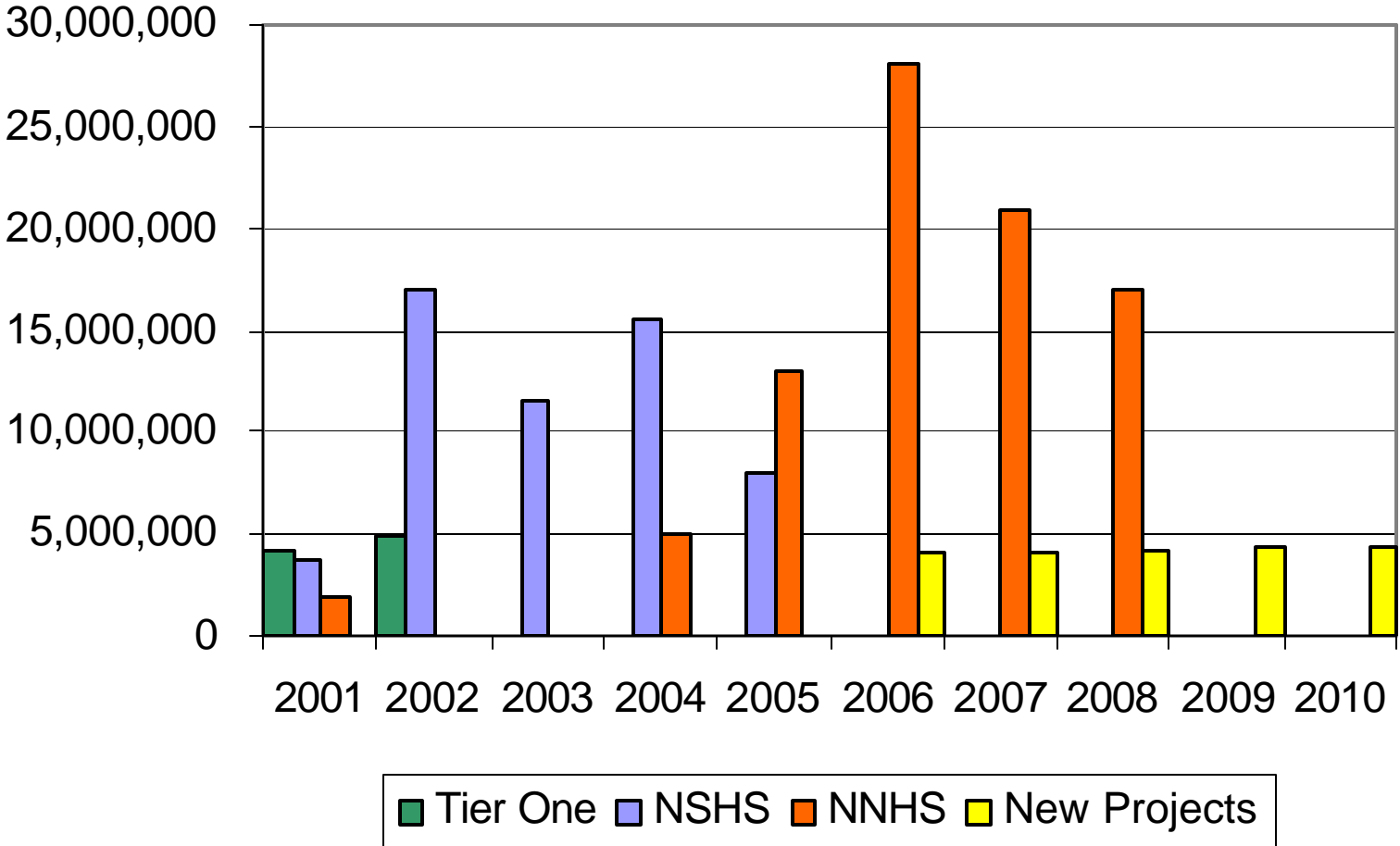
Fiscal Year	2019	2020	2021	2022	2023	2024	2025	2026
NSHS	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938
NNHS	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753
Total	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691

### High School Projects Total Costs and SBAP Reimbursement



□ Total H.S. Costs    ■ SBAP Reimbursement

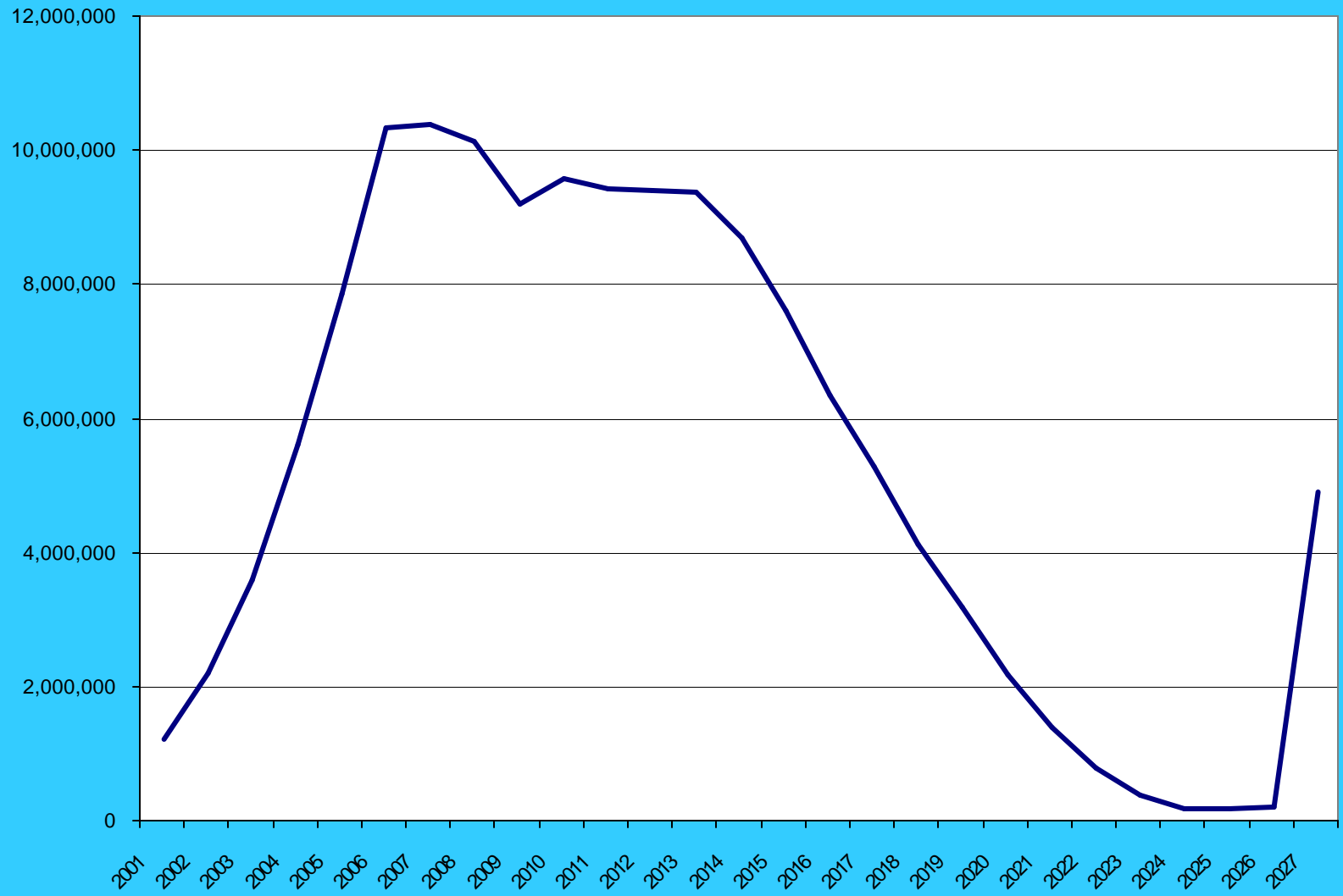
# Annual Borrowing Citywide



## Net Annual Debt Service and Target Debt Cost



### Capital Project Reserve Balance



Clty of Newton - High School Project Financing Plan

BAN Interest Rate		2.00%	2.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
Bond Interest Rate									5.00%	5.00%	
Term of borrowing, years										16	
<b>Fiscal Year</b>		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
South, Total Principal	55,868,029	3,770,000	16,950,000	11,500,000	15,639,946	8,008,083					
North, Total Principal	85,930,000	1,930,000	0	0	5,000,000	13,000,000	28,000,000	21,000,000	17,000,000		
<b>Total Principal</b>	<b>141,798,029</b>	<b>5,700,000</b>	<b>16,950,000</b>	<b>11,500,000</b>	<b>20,639,946</b>	<b>21,008,083</b>	<b>28,000,000</b>	<b>21,000,000</b>	<b>17,000,000</b>	<b>0</b>	
<b>Principal and Interest Payments</b>											
South, Total Costs	94,961,808		165,880	567,004	736,474	957,199	1,117,361	2,234,721	2,234,721	2,234,721	2,234,721
North, Total Costs	139,114,645		84,920	21,273	62,401	138,600	398,600	1,917,200	2,757,200	3,437,200	3,437,200
<b>Total H.S. Costs</b>	<b>234,076,453</b>	<b>0</b>	<b>250,800</b>	<b>588,277</b>	<b>798,875</b>	<b>1,095,799</b>	<b>1,515,961</b>	<b>4,151,921</b>	<b>4,991,921</b>	<b>5,671,921</b>	<b>5,671,921</b>
<b>Other Debt Costs</b>											
Williams		654,683	578,504	558,038	540,638	522,738	504,438	485,938	467,238	453,219	429,000
Bowen (2)			42,420	41,115	39,810	38,468	37,095	35,708	34,305	28,006	26,813
Memorial-Spaulding			95,575	681,150	661,900	642,650	623,400	604,900	586,025	566,400	546,400
New Projects								600,000	1,195,000	1,784,875	2,369,497
Pre-FY2001 Projects Debt Service		5,614,943	5,395,053	4,702,886	3,941,401	3,569,981	3,117,139	2,476,839	1,831,899	1,415,657	119,219
<b>Total G.F. Debt Service</b>		<b>6,269,625</b>	<b>6,362,352</b>	<b>6,571,466</b>	<b>5,982,624</b>	<b>5,869,636</b>	<b>5,798,033</b>	<b>8,355,306</b>	<b>9,106,388</b>	<b>9,920,078</b>	<b>9,162,850</b>
<b>Reimbursement</b>											
South H.S. SBAP	55,256,846										
North H.S. SBAP	80,822,906										
Middle School SBAP		1,180,993	1,224,029	1,224,029	1,224,029	1,224,029	1,224,029	1,224,029	1,224,029	1,224,029	1,224,029
Bowen SBAP					254,747	254,747	254,747	254,747	254,747	254,747	254,747
Williams SBAP									317,160	317,160	317,160
Memorial-Spaulding SBAP											395,134
New Projects											
<b>SBAP Total</b>		<b>1,180,993</b>	<b>1,224,029</b>	<b>1,224,029</b>	<b>1,478,776</b>	<b>1,478,776</b>	<b>1,478,776</b>	<b>1,478,776</b>	<b>1,795,936</b>	<b>1,795,936</b>	<b>2,191,070</b>
<b>Net Cost</b>		<b>5,088,633</b>	<b>5,138,323</b>	<b>5,347,437</b>	<b>4,503,848</b>	<b>4,390,860</b>	<b>4,319,257</b>	<b>6,876,530</b>	<b>7,310,452</b>	<b>8,124,142</b>	<b>6,971,780</b>
Fiscal Year	2.00%	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Target Debt Cost	Annual debt growth	6,269,628	6,332,324	6,395,648	6,523,561	6,654,032	6,787,113	6,922,855	7,061,312	7,202,538	7,346,589
Cost below (above) 3% target debt cost		1,180,993	1,166,000	1,059,512	2,019,713	2,263,172	2,467,856	46,325	(249,140)	(921,604)	374,809
Use of Debt Reserve			(175,000)	320,864							
<b>Debt Reserve Balance</b>		<b>1,180,993</b>	<b>2,171,993</b>	<b>3,552,369</b>	<b>5,572,082</b>	<b>7,835,254</b>	<b>10,303,111</b>	<b>10,349,436</b>	<b>10,100,296</b>	<b>9,178,692</b>	<b>9,553,501</b>

Clty of Newton - High School Project Financing Plan

BAN Interest Rate												
Bond Interest Rate												
Term of borrowing, years												
Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
South, Total Principal												
North, Total Principal												
<b>Total Principal</b>	Begin bonding											
Principal and Interest Payme												
South, Total Costs	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938	5,154,938
North, Total Costs	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753	7,928,753
<b>Total H.S. Costs</b>	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691	13,083,691
<b>Other Debt Costs</b>												
Williams	409,700											
Bowen (2)	25,606											
Memorial-Spaulding	526,400	418,200										
New Projects	2,948,734	3,522,453	4,090,514	4,652,777	5,205,530	5,748,584	5,881,744	6,014,812	6,147,837	6,280,870	6,413,961	6,547,168
Pre-FY2001 Projects Debt	119,375	119,615	119,079	122,744	123,004	123,234	123,433	123,701	126,253	0	0	0
<b>Total G.F. Debt Service</b>	17,113,506	17,143,958	17,293,284	17,859,212	18,412,225	18,955,509	19,088,868	19,222,205	19,357,781	19,364,561	19,497,652	19,630,859
<b>Reimbursement</b>												
South H.S. SBAP	3,453,553	3,453,553	3,453,553	3,453,553	3,453,553	3,453,553	3,453,553	3,453,553	3,453,553	3,453,553	3,453,553	3,453,553
North H.S. SBAP	5,051,432	5,051,432	5,051,432	5,051,432	5,051,432	5,051,432	5,051,432	5,051,432	5,051,432	5,051,432	5,051,432	5,051,432
Middle School SBAP												
Bowen SBAP	<b>254,747</b>	<b>254,747</b>	<b>254,747</b>									
Williams SBAP	317,160	317,160	317,160	317,160	317,160	317,160	317,160					
Memorial-Spaulding SBAP	395,134	395,134	395,134	395,134	395,134	395,134	395,134	395,134	395,134			
New Projects						193,750	380,625	560,625	733,750	900,000	1,059,375	1,211,875
<b>SBAP Total</b>	9,472,026	9,472,026	9,472,026	9,217,279	9,217,279	9,411,029	9,597,904	9,460,744	9,633,869	9,404,985	9,564,360	9,716,860
<b>Net Cost</b>	7,641,481	7,671,933	7,821,258	8,641,933	9,194,946	9,544,481	9,490,965	9,761,461	9,723,913	9,959,576	9,933,293	9,913,999
Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Target Debt Cost	7,493,521	7,643,391	7,796,259	7,952,184	8,111,228	8,273,453	8,438,922	8,607,700	8,779,854	8,955,451	9,134,560	9,317,251
Cost below (above) 3% tar	(147,960)	(28,541)	(24,999)	(689,749)	(1,083,718)	(1,271,028)	(1,052,043)	(1,153,761)	(944,059)	(1,004,125)	(798,733)	(596,748)
Use of Debt Reserve												
<b>Debt Reserve Balance</b>	9,405,541	9,376,999	9,352,000	8,662,252	7,578,533	6,307,505	5,255,462	4,101,701	3,157,642	2,153,517	1,354,785	758,037

Clty of Newton - High School Project Financing Plan

BAN Interest Rate					
Bond Interest Rate					
Term of borrowing, years					
<b>Fiscal Year</b>	2023	2024	2025	2026	2027
South, Total Principal					
North, Total Principal					
<b>Total Principal</b>					
Principal and Interest Payme					
South, Total Costs	5,154,938	5,154,938	5,154,938	5,154,938	
North, Total Costs	7,928,753	7,928,753	7,928,753	7,928,753	
<b>Total H.S. Costs</b>	13,083,691	13,083,691	13,083,691	13,083,691	
<b>Other Debt Costs</b>					
Williams					
Bowen (2)					
Memorial-Spaulding					
New Projects	6,680,547	6,814,158	6,950,441	7,089,449	7,231,238
Pre-FY2001 Projects Debt					
<b>Total G.F. Debt Service</b>	19,764,238	19,897,849	20,034,132	20,173,141	7,231,238
<b>Reimbursement</b>					
South H.S. SBAP	3,453,553	3,453,553	3,453,553	3,453,553	
North H.S. SBAP	5,051,432	5,051,432	5,051,432	5,051,432	
Middle School SBAP					
Bowen SBAP					
Williams SBAP					
Memorial-Spaulding SBAP					
New Projects	1,357,500	1,496,250	1,628,125	1,628,125	1,628,125
<b>SBAP Total</b>	9,862,485	10,001,235	10,133,110	10,133,110	1,628,125
<b>Net Cost</b>	9,901,753	9,896,614	9,901,022	10,040,031	5,603,113
Fiscal Year	2023	2024	2025	2026	2027
Target Debt Cost	9,503,596	9,693,668	9,887,542	10,085,293	10,286,998
Cost below (above) 3% tar	(398,157)	(202,946)	(13,480)	45,262	4,683,885
Use of Debt Reserve					
<b>Debt Reserve Balance</b>	359,880	156,934	143,454	188,715	4,872,600