

ARLINGTON FINANCE COMMITTEE
MINUTES OF MEETING
7:30PM COMMUNITY SAFETY BUILDING
4/4/11

ATTENDEES:

McGaffigan*	Bayer*	Jenkins*	Phelps	Corredera*
DeCoursey*	Connors*	Simmons*	Gibian*	
Tosti*	Foskett*	Deyst*	Ronan*	
Ferrara*	Franclemont*	Jones*	Deshler*	
DuBois*	Howard	Fanning*	Carman*	Turkall*

* Indicates present

VISITORS: President Schools For Children Ted Wilson, Finance Director Schools for Children Dale Lemke, Tom Britt, Deputy Town Manager Adam Chapdelaine, Superintendent of Schools Kathleen Bodie, Director Arlington Childrens Center Mat Dolan

Mat Dolan of Arlington – Status of two playgrounds in question/Tenants of Parmenter would like long-term lease, possibly 25 years. They would pay for roof and heating system. If building were put up for sale, ACC would bid on it.

Ted Wilson, Schools for Children at the Crosby – wants to buy, bank commitment already in place from previous attempt at purchase in another town, but if a lease is offered, they would sign it and look for more permanent space elsewhere. If Schools for Children purchased property and at some point decided to sell, the town should have first option to buy back (Dean Carman proposal).

STM ART 5 Thompson School (Charlie Foskett and Kathleen Bodie spoke on this issue) Charlie discussed his handout (Ref 1). Feasibility stage complete. Moving on to schematic stage. Architect has a negotiated contract in place. Necessary paperwork to be sent to MSBA by mid-June. July 27 meeting with MSBA. The town will then have 120 days to secure funding. Once funding is in place, it will take 8 months for construction drawings and to be put out to bid. Construction would start Spring/Summer of 2012. Richard Corredera proposed a motion for \$20 million bond authorization to rebuild Thompson Unanimous Vote-Favorable Action.

STM ART 4 Stratton School – MSBA thinks Stratton is fairly new and will not consider money for Stratton for some time (possibly 20 years)

STM ART 6 Unpaid Bills from Previous Fiscal Years – \$4207 for unpaid bills from 2009—arbitrator submitted two bills 1 year late – Motion for Favorable Action – Unanimous – Payment to be taken from Free Cash

ART 36 Transfer of Real Estate/23 Maple Street. 1. Motion to transfer property to BOS with no direction (7-11) 2. Transfer property to BOS with direction to sell (4-14) 3. No Action (14-4)

ART 37 Disposition of Real Estate/23 Maple Street Motion for No Action (15-3)

ART 38,39 Richard Corredera discussed his handout (Ref 2). Al Tosti instructed

Committee to review for vote on Monday, April 11.

Ref 1 Thompson School

Ref 2 Parmenter and Crosby

COMMITTEE No meeting on Wednesday, April 6.

RESERVE FUND BALANCE- \$882,344.49 (\$398,710.26 after expected transfers)

Gloria Turkall 4/5/11 Edited by PBH

cc FinCom Members, Library File, Town Web Site

VOTE SUMMARY – Articles

# 2/10	#	#	Title	Date Heard	Date Voted	Status (Unlisted votes were unanimous)
21			Closing Of Warrant	2/16		Wait for BoS
22			Standing Votes	2/16		Wait fot BoS
23			Snow Shoveling	2/9		
30			Civil Service Exemptions	2/9		
31			GIC	2/9	3/30	Will report
32			GIS Health Reimbursement Accounts	2/9,2/23	3/30	Support
33			Antenna Leases Renewal	2/9		
34			PAYT Program	2/14		
35			Trash Removal Enforcement	2/14		
36			Transfer of 23 Maple St	2/9	4/4	No action 14-4
37			Disposition of 23 Maple St	2/9	4/4	No action 15-3
38			Disposition of Parmenter	2/9 4/4		
39			Disposition of Crosby	2/9 4/4		
40			Crosby School Land	2/16		
41			Brick Curb Cut Policy	2/16		No report
42			Bricks Replacement Senior Ctr	2/16		Requested info
43			Reserve Fund Policy	2/14	2/14	No action
44			Consolidate Human Resource Dept	2/9,3/14	3/30	Support
45			Human Resource Dept Pay Plan	2/9	3/30	No action
46			Financial Report	3/14	3/30	No action
47			Budget Submissions	3/14	3/30	Support
48			Budget Bylaw	3/14	3/30	No action
49			Economic Advisory Group	3/14	3/30	No action
50			Extend ReOrg Committee	3/14	3/30	Support
51			Consolidation Finance Depts	3/2	3/30	Support 9-7
54			Collective Bargaining	2/9	2/9	Will report
55			Positons Reclssifications	3/28	3/28	\$6898
57			Capital Budget	2/28	2/28	\$8,448,540
58			Sidewalks on MassAve	3/14	3/14	No action
59			Sewers	2/9		\$1,500,000
60			Water	2/9		\$700,000
61			Minuteman Tech	3/23	3/23	\$2,352,988
62			Committees & Commissions	2/9	2/16,3/30	\$14,760
63			Celebrations	2/9	2/16	\$10,167
64			Misc Approp-Indemnity, OOS Travel	2/9	3/2 3/30	\$9,540+\$1,500
65			Water Bodies	2/23	2/23	No action
66			Water Bodies	2/23	2/23	\$20,000
67			Pension Adjustment	2/7 3/28	3/28	Approve
68			OPEB	2/7 3/30	3/30	\$389,428
69			Increase COLA Base	2/7 3/28	3/28	No action 16-1
70			Increase Survivors Benefits	2/7 3/30		
71			Local Option Taxes	3/14	3/14	No action
72			Tip Fee Stab Fund	3/14	3/14	\$450,000
73			Transfer of Cemetery Funds	3/30	3/30	\$150,000
74			Overlay Reserve	3/14	3/14	\$200,000
75			Stabilization Fund	3/14	3/30	No action
76			Free Cash	3/14	3/14	\$385,249
STM2			Amendments to FY11 budget	3/21		Jones
STM3			AHS Repair	3/16,21		Chapdelaine
STM4			Stratton School Capital Budget			Turkall
STM5			Thompson School Capital Budget	4/4	4/4	\$20,000,000
STM6			Unpaid bills from previous years	3/16	4/4	\$4,207
STM7			Mass Ave Sidewalks			

VOTE SUMMARY-Budgets

#	Title	Date Heard	Date Voted	Amount	Vote Unlisted votes were unanimous
1	FinCom	2/16	2/16	10618	
2	Board of Selectmen	3/14	3/14	341378	
3	Town Manager	2/23	2/23	399995	
4	Personnel	3/28	3/28	167872	
5	Information Technology				
6	Comptroller	2/23	2/23	388576	
7	Treasurer	3/9,21	3/21	558985	
8	Postage	3/21	3/21	156848	
9	Assessors	2/28	2/28	295315	
10	Legal	2/23	2/23	409219	
11	Town Clerk	3/9			
12	Registrar of Voters	3/21	3/21	57863	
13	Parking	3/21	3/21	106460	
14	Planning	2/28	3/2	222421	
15	Redevelopment Board	3/23	3/23	270539	
16	Zoning Board of Appeals	3/2	3/2	18084	
17	Public Works	3/23	3/23	7048305	Cemetery 11-2 Sanitation tabled
18a	Community Safety Admin	3/9	3/9	389059	
18b	Police	3/9	3/9	5485412	
18c	Fire	3/2	3/2	5282657	
18d	Support	3/9	3/9	718214	
19	Inspections	3/28	3/28	367242	
20	Education	3/16	3/21	38516006	
21	Library	2/16	2/16	1804517	
22a	Health & Human Services	3/9	3/28	259329	
22b	Veterans	3/9	3/28	326585	
22c	COA	3/9	3/28	160280	
23	Retirement	3/21	3/21	7329440	
24	Insurance	3/2,3/9	3/9	19986646	
25	Reserve Fund	3/30	3/30	600000	10-5
W&S EF	Rev 17579732 Exp 17579732	3/28	3/28		16-1
Rec EF	Rev 542500 Exp 528351	3/28	3/28		
Rnk EF	Rev 543800 Exp 538736	3/28	3/28		
COA EF	Rev 98050 Exp 96418.	3/9	3/28		
Youth EF	Rev 437566 Exp 434923	3/9,3/28	3/28	89066	

Thompson School Article 5 Special Town Meeting

Presentation to Finance Committee

April 4, 2011

C. Foskett

Topics

- Status of Thompson Project
- MSBA Schedule and Requirements
- TSBC Schedule
- APS And TSBC Costs
- Financial Resources
- Proposed Vote for Article 5 Special Town Meeting

Thompson Status

- MSBA has approved Thompson feasibility Study
- APS, TSBC, Architects and Project Manager have committed to \$20 million project budget
- Technical team proceeding to develop schematic plans for MSBA review and approval
- Existing agreement with MSBA calls for 47.2% reimbursement of approved costs

MSBA Requirements

- MSBA has asked the Town to present schematics by end of June for July 27th Board Meeting
- If schematics are approved, Arlington will qualify for 47.2% reimbursement
- Town has agreement with MSBA for advanced funding approval
- MSAB wants full unrestricted \$20 million authorization

Costs Tradeoffs

- APS Budget reduced by \$600,000 with Thompson close at Fall 2011
- If project is delayed, not having an enclosed building by winter 2012-2013 can increase costs by \$200,000
- \$800,000 impact is avoided with early start in Fall of 2011
- Requires STM vote on project in may 2011

Vote for STM Article 5 STM

- Ask TM to authorize \$20 million project
- Authorizes borrowing to support
- No caveats or conditions, especially with respect to MSBA reimbursement

Estimated Rebuild Debt Exclusion Balance	\$11,936,262		
Estimated Project Cost with \$1 M Reserve	\$20,000,000		
MSBA Reimbursement Rate	47.20%		
Est. Non-reimbursible Costs, incl Reserve	\$2,000,000		
Reimbursable Project Portion	\$18,000,000		
Allowed Reimbursement Amount	\$8,496,000		
Working Draft Only Not For Quotation or Reference			
	FY2012		Comments
Sources			
Unused Debt Exclusion Capacity	\$6,302,346	52.8%	Approximately x% of \$11.9 million
Annual CPC Program			
Thompson	\$1,616,493		PV of \$120,000 per year previously planned
Disposition of Assets			
Parmenter	\$1,500,000		
Crosby	\$1,500,000		
School Capital Balances for Thompson	\$814,000		Previously Voted by Town meeting
School Fund Interest Balance	\$20,000		Accumulated by Town meeting Direction
MSBA Participation Funds	\$8,496,000		Reimbursement at Effective Rate
Total Sources	\$20,248,839		
Uses			
Thompson Renovations	\$20,000,000		Estimated Project Cost
Reserve (Shortfall)	\$248,839		(Shortfall) or Reserve
Total Uses	\$20,248,839		
			Balance
Total Estimated Bond Vote			(\$20,000,000)
Defined and Authorized Sources			
Rebuild Debt exclusion	\$6,302,346		
School Capital & Interest Balances	\$834,000		
Annual CPC Program	\$1,616,493		
Balance			(\$11,247,161)
Asset Sales	\$3,000,000		
Balance			(\$8,247,161)
MSBA Reimbursement	\$8,496,000		
Reserve/(Deficit)			\$248,839

Preliminary Draft Vote

That the Town appropriate the sum of Twenty Million (\$20,000,000) Dollars for The Rebuilding of the Thompson Elementary School located in Arlington Massachusetts, which school facility shall have an anticipated useful life as an educational facility for the instruction of school children for at least 50 years, said sum to be expended under the direction of the School Building Committee, and to meet said appropriation the Treasurer, with the approval of the Board of Selectmen, is authorized to borrow said sum under M.G.L. Chapter 44, or any other enabling authority; that the Town of Arlington acknowledges that the Massachusetts School Building Authority's ("MSBA") grant program is a non-entitlement, discretionary program based on need, as determined by the MSBA, and any project costs the Town of Arlington incurs in excess of any grant approved by and received from the MSBA shall be the sole responsibility of the Town of Arlington; provided further that any grant that Town of Arlington may receive from the MSBA for the Project shall not exceed the lesser of (1) 47.20 percent (%) of eligible, approved project costs, as determined by the MSBA, or (2) the total maximum grant amount determined by the MSBA; provided that any appropriation hereunder shall be subject to the year 2000 Debt Exclusion affirmative vote of the Town to exempt the amounts required for the payment of interest and principal on said borrowing from the limitations on taxes imposed by M.G.L. 59, Section 21C (Proposition 2½); and that the amount of borrowing authorized pursuant to this vote shall be reduced by any grant amount set forth in the Project Funding Agreement that may be executed between the Town of Arlington and the MSBA.

Subject to further review by Town Counsel and Bond Counsel

Motivation and Objective

- It seemed very little quantitative research had been conducted on the buildings' potential outside of an immediate sale.
- A thorough quantitative study of the buildings, their condition, their potential, short-term sale alternatives, and possible application of proceeds.
- An analysis broader in nature than a particular end.
- Alternative funding solutions for Thompson School.

Summary

- **Both buildings are, and have been, important contributors to the Town's General Fund.**
- **Thompson can be funded while retaining the buildings, the Town's flexibility, and General Fund Revenue**
- **Tenant Funded M&R accounts would ensure condition restoration without Town expense.**
- **The value of stable leases to the Town is significant. With land appreciation added, these buildings' value will continue to grow year over year.**

Current Figures

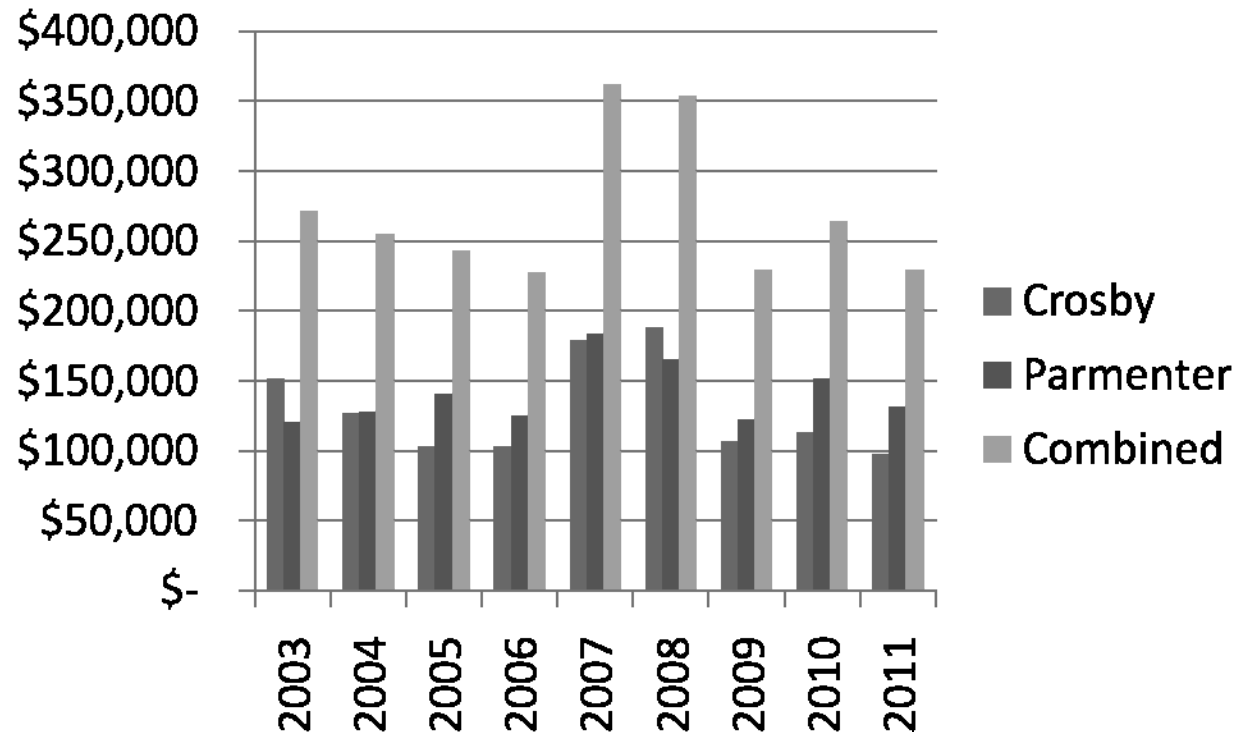
	Crosby	Parmenter
Gross Revenue FY12 – FY16	\$700,654	\$931,551
NET Revenue (to general fund) FY12 – FY16	\$564,018	\$794,366
Average budgeted maintenance expenses	\$16,405	\$16,405
Average actual maintenance expenses (FY09)	\$5,164	\$6,448
Average debt service FY12 – FY16	\$10,922	\$11,032
Triple-NET lease rate sq/f	\$3.50	\$7.13
Lease escalation	2.5%	2.5%
20 Year Gross Future Value	\$3,321,981	\$4,416,72
Insured Replacement Value	\$4,281,826	\$3,313,15

0

***Data sourced from authoritative town offices. Compiled and raw source data is always available upon request to richard.corredera@live.com**

****Current lease terms expire in 2013. Figures beyond expiration are projected based on current lease structure.**

Historical Revenue



- Revenue flows directly into the general fund via “Local Receipts”
- 2003 through 2008 include energy reimbursements
- 2011 figure March 2011 YTD

Maintenance Expenses

	Crosby	Parmente
Average budgeted maintenance expenses	\$16,405	\$16,405
Average actual maintenance expenses (FY09)	\$5,164	\$6,448
Annual Town craftsman hours/cost	157/\$3751	157/\$3751
Annual Town Planning staff hours/cost	201/\$7076	201/\$7076

- Overall, maintenance costs for both buildings have been exceptionally low.
- Budget levels were not adjusted following 2008 lease restructuring.
- Spending variance is a significant issue. Leveling variance, historical spending would be around 30% of the budget for each building.
- Most years, budgeted amounts have covered not only tangible expenses, but also Town personnel expenses.

Capital Expenses

	Crosby	Parmenter
Average debt service FY12 – FY16	\$10,922	\$11,032

•Prior to 2010, no significant debt funded capital projects, and no debt service, for many years. 1993 for Crosby (parking lot) while no bonds have been issued for Parmenter since at least 1993.

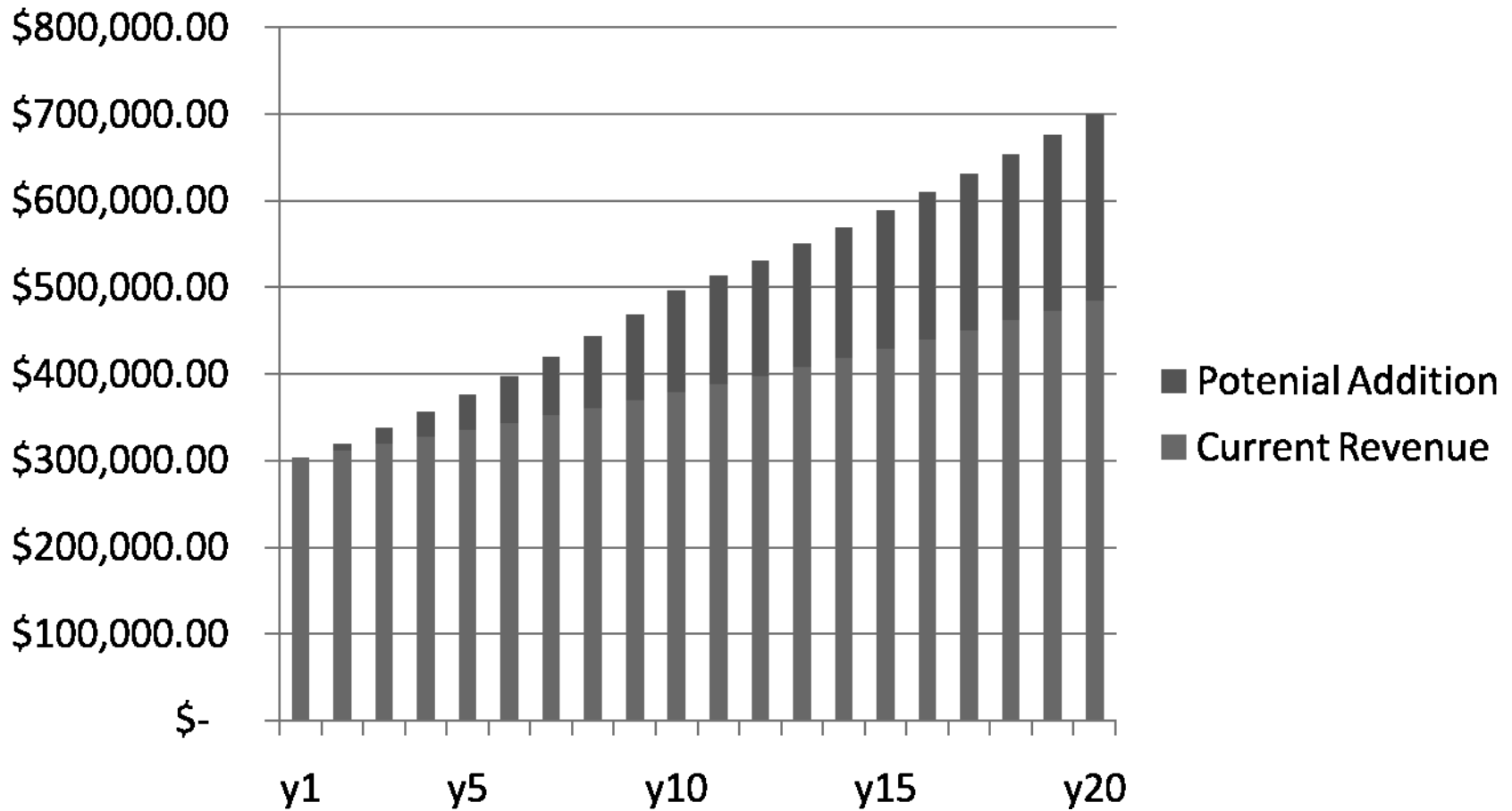
•In 2010, modest borrowing took place for Crosby (\$55,000) and Parmenter (\$25,000).

Restructured Lease

	Crosby	Parmenter
Gross Revenue FY12 – FY16	\$823,963	\$959,633
NET Revenue (to general fund) FY12 –	\$687,327	\$822,448
Average debt service FY12 – FY16 (No longer	\$10,922	\$11,032
Annual Tenant Maintenance and Renewal	\$68,000	\$35,000
20 year average NNN lease rate sq/f	\$6.78	\$10.49
20 year average lease escalation	5.63%	3.5%
20 year Gross Future Value	\$5,040,383	\$4,889,614

***Figures based on a Crosby lease escalation converging close to the Future Value of a \$5 sq/f (3.5% annual escalation) in the 10th year of the lease (Approximately \$7)**

20 Year Gross Revenue



Funded Depreciation

- **“Set aside” funds based on replacement value for cash replacement of an asset.**
- **Very rarely used for buildings. No known cases in municipal building management.**
- **When it is used, it is typically due to asset obsolescence or other volatile factors.**
- **If it were to be applied in this case, we would be literally storing millions of ear-marked dollars for cash replacement at the end of the buildings’ useful life.**
- **Most likely, the use of the term Funded Depreciation was a mistake. Instead, a formulaic budgeting model may have been the objective. Sometimes these models are called “Strategic Budgeting”**

Strategic Budgeting Maintenance and Renewal

- **Fixed amounts, usually formulaically determined, for maintenance and renewal budgeting.**
- **Sometimes used for “upward” budgeting requests to appropriation boards. Very, very rarely fully funded.**
 - Many state university systems.
 - City of Hamilton, Ontario Canada
- **Sometimes used for “downward” spending requirements set by building owners/managers.**
 - Idaho State code 33-1019 sets spending requirements for public school facilities; then funds the accounts.
 - Some examples in single occupancy Triple-NET

Strategically Budgeting Crosby and Parmenter

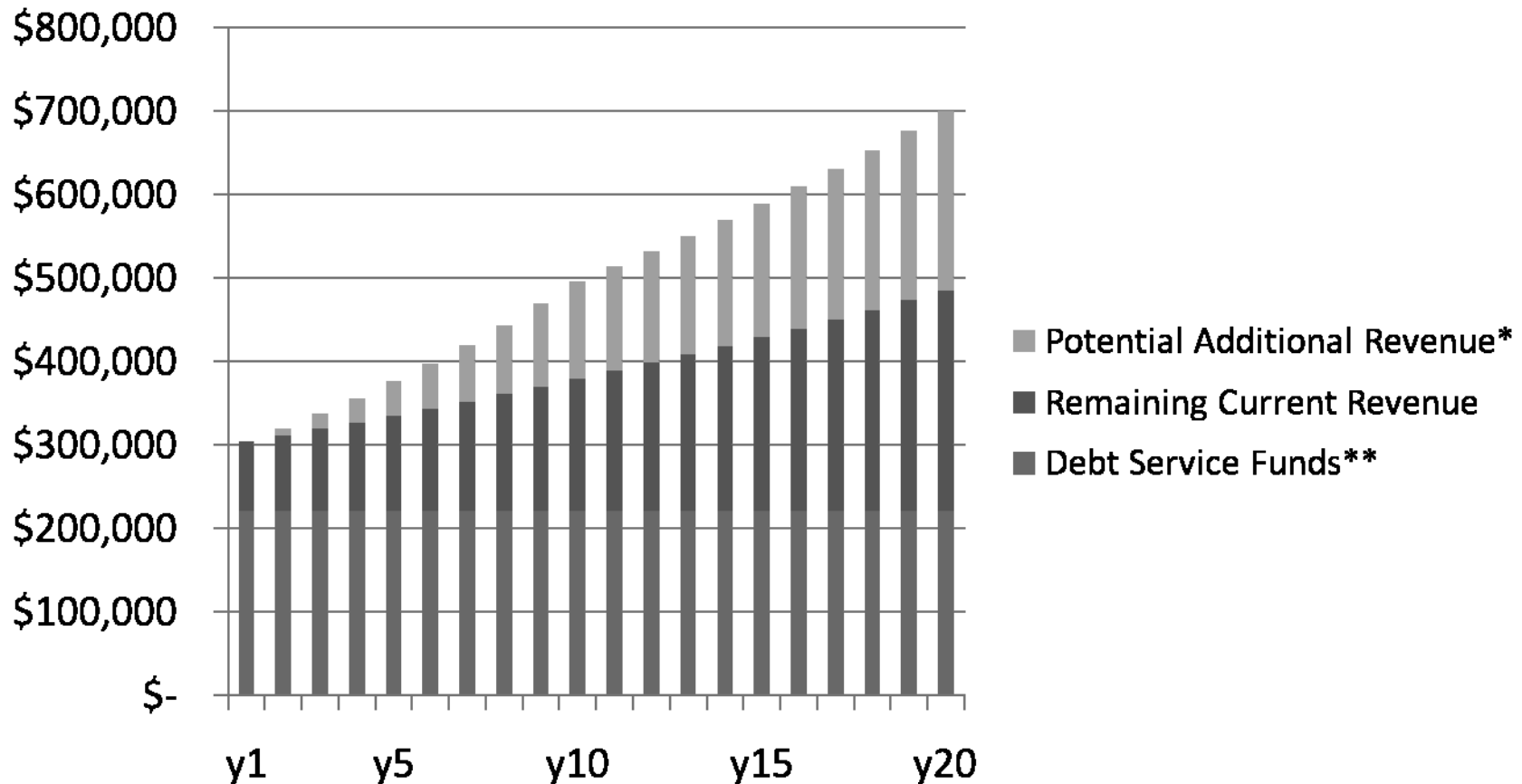
- **Spending requirements ensure town assets are not only maintained, but renewed.**
- **Tenant funded “M&R” account based on a blend of building age, square footage, and replacement value.**
- **With proper funding, operating, capital, and emergency repair costs could be entirely supported by an escrow M&R account.**
- **Would ensure better spending on renewal projects than either building has seen in years. Without any town funding.**
- **Tenants in both buildings have expressed a willingness to commit to funding M&R with longer term leases.**

Thompson School

Some believe the sale of these buildings is the only way we can complete Thompson.

- **Simply not true.**
- **Some or all of lease proceeds could be used to prevent \$3m Thompson funding shortfall from hitting the tax levy.**
- **Annual escalating lease rates and potentially diminishing debt service payments result in consistent NET revenue increases year to year.**
- **Tenant Funded M&R increase the Town's margin while simultaneously restoring the buildings' condition.**

Bonding \$3m Thompson Funding shortfall



*Following "Restructured Lease" summarized on slide 7

** \$3million, 20 year repayment, 4% rate

Summary Comparison

Property Sale

- **Immediate loss of nearly \$300k annual General Fund contribution**
- **Long term loss of as much as \$10M revenue (less sale NET) over 20 years.**
- **One time cash infusion, projected around \$3M**
- **Complex and risky transition outside of the town's normal course of business.**

Continued Lease

- **Flexibility to continue revenue generation and further expansion.**
- **Would not prevent a future sale if conditions improved.**
- **Simpler, less risky transaction involving 20+ year tenants looking for long term stability.**

THOUGHTS ON COMMON QUESTIONS AND STATEMENTS

With depreciation these buildings actually lose money

Not exactly. In this case, the accounting method being cited is a primarily academic model. No known applications of the model are applied in situations similar to our own, and only a handful of theoretical and partial versions are known throughout the country. Additionally, the model itself allows for a wide range of input factors. The range of those factors cause extreme variations in the budgeted amounts.

The town is not in the building management business.

The town is actually in the building management business. Whether governmental or commercial, a significant portion of the town's value is in its building assets. Managing and protecting those assets is a core responsibility. The net result is an expert work force which could be easily leveraged to generate additional revenue for the town.

Additionally, a significant number of towns and city in Massachusetts engage in commercial lease operations. There could be many reasons for this, not the least of which is the fact that it is one of the few revenue streams municipalities are free to develop.

If we lease the buildings now, we are stuck with them

Not true. If now is not the right time to sell, 10 years from now may be a different story. If we manage ourselves well, our proximity to Boston and our limited new growth potential could mean great things for our land values. Not selling short now, does not prevent us from capitalizing on these parcels in the future.

We have a responsibility to rebuild Thompson

Yes we do.

Selling these buildings is in no way a simple or easy proposition. No one can say for sure how the cards will fall. In fact, the only thing guaranteed in a building sale is that the town will lose two of its valuable assets and control of two potentially very valuable parcels of land.

In contrast, entering into a well formed long term leasing is much simpler and can get close to guaranteeing funding sources for many years.

Why accept the capital costs when our other town buildings are in such drastic need of attention?

These buildings generate revenue. Many of our others don't. Even an unexpected \$500k repair was somehow needed. Under the current leases a cash repair would still only dip the building red for less than 2 years. If the repair costs were borrowed the costs would barely dent the intake. If a long term lease is secured, the building would maintain and over all NET positive contribution of a very significant magnitude. In short, these building would actually support repair well beyond there own walls.

Furthermore, with tenant funded Maintenance and Renewal funding, the town would not need to fund any capital costs. This arrangement would free up even more intake for the General Fund.