

To: Peter Underhill
Peter Berube

From: Wayne Klocko

Date: October 21, 2022

Re: Finance Committee support for the senior center project

ACTION REQUESTED

Based on the discussion at the Finance Committee meeting of October 19, we are providing additional information the committee requested. We are also responding to concerns raised about the project with the intention that Finance Committee reconsider its decision not to recommend support of the project at the upcoming Town meeting.

DISCUSSION

The finance committee requested a breakdown of the costs that make up the total, “all-in” costs for this project. Attached is the summary from our cost estimator, PM&C. The direct construction cost is \$11,717,442. To this amount we add the following:

Architect and Engineering fee (15%)	\$1,757,616
Owner’s Project Manager fee (10%)	1,171,744
FF&E	500,000
Owners’ contingency (7.3%)	<u>853,198</u>
TOTAL	\$4,282,558

Together, these costs total \$16m in the warrant article. A couple of points about these costs:

PM&C is a well-respected industry cost estimator. Their cost includes an escalation of 7.4% for construction to begin in the fall of 2023.

The A/E fee may be somewhat high. We expect to be able to negotiate a contract within this amount.

The Owner’s Project Manager (OPM) fee is essential to the success of the project. Daily supervision of the construction by a clerk-of-the-works and close oversight by the Permanent Building Committee has ensured both the quality of the construction and maintaining costs within or below the budget on the Town’s most recent projects, including the \$10M Police and Fire project, \$48M Clyde Brown school project and the \$4M DPW project. The 10% estimate is consistent with our prior experience.

The cost for all of the furnishing, including everything from pots and pans and other kitchen equipment to seating, window shades and everything else the COA will need to operate the new facility is reasonable for a project of this size.

The owner's contingency is within industry standards.

We do not have the option of underfunding this project. We do not have the option to go back for more money if the need arises. As you know, for public construction projects, the general contractor's bid is only good for generally 30 days. If the town does not execute the contract within that timeframe because it does not have sufficient funds, there is no time to go back to the voters for additional funding and still hold the bid prices. The same is true for any of the filed sub-bidders, of which there will be many, including electrical, HVAC, plumbing and fire protection, masonry, etc. Failure of any of these firms to hold their prices prevents the project from going forward and would only increase the ultimate cost when the project would be re-bid.

The perception that the cost of the project is too high and not in line with other senior center construction in Massachusetts is not accurate. To simply look at the cost of another project and divide it by its square footage does not provide a realistic picture of its actual cost. There is no way to know, based on that limited information what is or is not included. The references to North Andover and Mansfield do not provide enough information to compare. The one example that did have enough information to evaluate, Sturbridge, is remarkably similar to the Millis proposal. That project, for 12,000 sq ft has an "all-in" cost of \$11,448,451 in 2022 dollars. Their price includes 10% for A/E fees, 4% OPM fee, \$495,000 for FF&E and an owner's contingency of 10%. The difference between their price and ours is in the A/E fee and the OPM fee, extended over 15,000 sq ft, vs their 12,000 sq ft. Both are within industry standards. The Sturbridge information only supports the confidence we have in the costs we have submitted.

Other concerns raised by the Finance Committee:

The cost of a **sewer pumping station** should be included in the overall project cost. According to the DPW director, this issue first came up when Charlie Aspinwall was the Town administrator/DPW director and has been a maintenance issue since. It is ongoing and is unrelated to whether any additional capacity from the senior center would require any change. An engineering study would need to be performed when and if the senior center was placed at the Cassidy farm to determine whether any improvements would be needed to the existing equipment. We maintain that the sewer cost is unrelated to the senior center proposal and should not be part of the project.

The assertion by a member of the Finance committee that the **Cassidy farm should be sold to a developer**, for the purpose of reducing the cost to taxpayers is inappropriate and **beyond the scope of the Finance committee and its role as fiduciary in reviewing the merits of this project**. It is worth noting that this property was purchased over 20 years ago for the expressed purpose of preserving open space and to prevent development. To now suggest that this land, reserved for Town use now be changed to prevent a senior center to be built there is beyond the scope of the Finance committee responsibility.

Financial issues

Hilltop Financial Advisers, the Town's financial consultant was specifically asked **whether the funding of this project would adversely affect its bond rating and whether it would adversely affect future borrowing**. Here is their response:

The Town is currently rated Aa3 by Moody's (most recent report attached). The Town's credit strengths include above-average resident income and wealth levels and the fact that a large portion of the Town's debt is excluded from the limitations of Proposition 2 ½; however, in Moody's opinion, the Town's credit challenges are its above-average debt burden (which includes pension and OPEB liabilities) and modest reserves and liquidity. Moody's methodology assigns 20% of the rating to debt and pensions. The balance of the rating is driven by an assessment of Town management and fiscal policies, financial results, reserve positions, wealth as measured by income and tax base metrics, and future expectations regarding structural balance and maintenance of flexibility.

While Moody's views the Town's debt, pension, and OPEB liabilities as above-average, it still considers the Town's leveraged position to be manageable given its conservative budgeting and maintenance of satisfactory reserve and liquidity levels. There is no reason to think that the addition of the prospective debt issue being contemplated by the Town would undermine the stability of the current credit rating, assuming affording it would not undermine maintenance of reserves.

Also, concern was expressed about **interest rates** on borrowing. Keep in mind that any financing during construction would be financed through BAN (bond anticipation notes). With construction not scheduled to start until late 2023 and a 16 month construction timeline, bonding for this project would not happen until 2025. Interest rates at that time may be different than the current inflation we are experiencing. The same is true for any future improvements to the **middle/senior high school**, now being contemplated. Considering the period of time to evaluate the scope of that project, if it is approved in November, obtaining MSBA funding approval would not put the project in front of voters until 2024. Funding during construction would again be BAN, with permanent funding not likely until 2027.

Finally, this project was carefully vetted by the COA and the Permanent Building Committee, the agencies responsible for that evaluation. The COA has determined their needs and the Permanent Building Committee has determined what the reasonable cost would be to construct that facility. The Town has the borrowing capability to afford this project on its own merits and without risk to borrowing for future projects. Additional revenue from commercial and residential development is projected for the immediate future and beyond. There is no reason for the Finance committee not to recommend support for this project. Whether the Town chooses to approve it is a question for the voters. We therefore respectfully request the Finance committee reconsider its decision.

Cc: COA Board members
Permanent Building Committee
Select Board