



## Joint Meeting of the Select Board, Finance Committee and Andover High School Building Committee

Wednesday, May 31, 2023 7:00 PM  
Memorial Hall, Memorial Hall Library  
2 North Main Street, Andover, MA 01810

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### I. Call to Order – 7:00 P.M.

Select Board Chairperson Melissa Danisch called the Joint Meeting to order at 7:03 PM in Memorial Hall of Memorial Hall Library. Present for the Select Board: Melissa Danisch, Annie Gilbert, Laura Gregory, Chris Huntress and Alex Vispoli.

Andover High School Building Committee Chairperson Mark Johnson called the Andover High School Building Committee to order. Present for the Andover High School Building Committee: Mark Johnson, Caitlin Brown (arrived at 8:00 p.m.) Dr. Lauren Conoscenti, Town Manager Andrew Flanagan, Dr. Nancy Kimelman, Janet Nicosia, Dr. Magda Parvey, Michael Prout, Shannon Scully, and Taylor Webber.

Finance Committee Chairperson Kevin O’Handley called the Finance Committee to order. Present for the Finance Committee: Kevin O’Handley, Yican Cao, Paula Colby-Clements, Bill Haskell, Paul MacKay, Andy McBrien, Kim Perry and Ken Russo.

Others in Attendance: Chief Financial Officer Patrick Lawlor, Deputy Town Manager Mike Lindstrom, Assistant Town Manager / Town Clerk Austin Simko.

### II. Opening Ceremonies

#### A. Moment of Silence/Pledge of Allegiance

The meeting began with a Moment of Silence followed by the Pledge of Allegiance.

### III. Regular Business

#### A. Andover High School Building Project

State Senator Barry Finegold gave an update from the state Legislature. Senator Finegold filed an amendment to the FY2024 budget to exempt all school building projects from a community’s debt limit. He believes this amendment will pass and will be signed by the governor. He noted that he spoke with Sean Cronin, the Senior Deputy Commissioner of the Division of Local Services, who stated that his division has wanted to change the debt limit issue for some time. To help with the rising cost of construction, \$100M has been put into the budget for over-budget school building projects. From those additional funds, Andover could see a refund of \$7.2 million for West Elementary.

Mr. Finegold stated that he was a member of the Select Board when the decision was made to renovate the high school in the 1990s. In his opinion, a new high school should have been approved instead of the renovation. He doesn’t see the Massachusetts School Building Authority (MSBA) increasing the reimbursement rate which is now \$393/ft<sup>2</sup>. He would like the residents of the town to be able to vote on the high school project.

Paula Colby-Clements asked what the effective date of the amendment will be and what other discussions are happening at the state level. Mr. Finegold stated that the amendment would be effective when the budget is signed. Mr. Finegold stated that he thinks less school building projects will be

funded by the state in the future. Kevin O’Handley asked how the millionaire’s tax will be allotted, noting that those funds are earmarked for transportation and education. Mr. Finegold noted that the \$100M he referenced is coming from those revenues.

Kristin Wise of Inwood Lane asked how long the state has known that self-funded schools are not exempt from the debt limit. Mr. Finegold stated that he couldn’t definitively answer that question because it wasn’t an issue until now.

Mark Johnson, Chairperson of the Andover High School Building Committee introduced Joe DeSantis and Marco Zappala from PMA Consultants, the Owner’s Project Manager, and James Liebman from HMFH Architects, the architect for the Andover High School project.

Shannon Scully began the project update with a history of the building. It was noted that since 1963, when the building was first designed, standards for educational space have changed including general classroom size, special education space, and lab space. Based on today’s state standards, the capacity of AHS is 1,400 students. Ms. Scully reviewed the space studies that have taken place in 2014, 2016 and 2022. She noted that no solutions were found to address both the space problems and environmental problems for less than \$100M while also meeting a full educational plan.

Ms. Scully reviewed the goals for improving Andover High School that came out of the 2022 space study. These include:

- Enhance safety and security
- Eliminate overcrowding
- Accommodate enrollment growth
- Support educational program and delivery
- Improve physical environment
- Improve site use and campus circulation

Mr. Johnson noted that, although not an MSBA project, the Committee is following the MSBA process. He reviewed the work performed to date by the project team. Bill Haskell asked how far out the demographics are projected to. Mr. Johnson stated that the demographic numbers are projected for ten years. He noted that the state is pushing for an increase in housing opportunities statewide, and it is expected for this school to be in service for 50 years. The school will be built for 1,900 students.

Mr. Liebman of HMFH reviewed the 11 approaches that the Committee considered, including three addition/renovation options and 8 new building options. In December the Committee narrowed the choices down to five for further development, then in February, three options were selected to move on to cost estimation. Mr. Liebman reviewed the phasing details of the three options. The addition/renovation option had the longest duration of 82 months and the new campus with auditorium had the shortest duration of 60 months.

Mr. DeSantis of PMA Consultants reviewed the cost analysis process. He noted that the cost analysis was performed at a high level and was to be used only for decision making and comparison purposes. Two independent cost analyses were performed and then were reconciled. The reconciled estimates were within approx. 3% for addition/renovation and 1% for the new option.

Mr. DeSantis reviewed the project costs for each of the three options. He noted that escalation, phasing and logistics are related to project duration and the contingency amounts are associated with the risk of change orders. The addition/renovation option costs are driven up by these factors.

Mr. McBrien asked for more information on how the escalation was determined. Mr. DeSantis stated that each phase was escalated to the midpoint. A tapering escalation was used. For the remainder of

this year 7% was used, then 5% for 2024 and 4% for 2025. Mr. DeSantis reviewed what is included in both the construction costs and soft costs.

Andy McBrien asked if the demographic projections included the number of Andover students who attend a private school. He noted that those who would normally send their child to a private school may opt to send them to the brand-new high school. Dr. Magda Parvey stated that the demographer considered that scenario. For the current school year, 65-80 high school aged residents attend private schools.

Annie Gilbert noted many people have questioned if the town can wait until prices come down. She asked if it is correct that there will always be price escalations. Mr. Liebman stated that she was correct.

Ms. Scully reviewed financial considerations. She reiterated that the Legislature is considering a change to the debt limit issue. The town is working with the rating agencies to understand the implications of borrowing. Additional design money is needed as funding previously approved by Town Meeting will pay for three additional months of work. When the debt limit issue was discovered, the Committee withdrew their \$1.3 million Town Meeting warrant article for schematic design funds. Each month of construction delay increases the project cost by \$1.2M.

Janet Nicosia reviewed the cost of doing nothing. She noted that there would be continued overcrowding which could lead to educational impacts and impacts to parking and fields if modulars are necessary. The building will have to continue to be maintained and repaired which is an ineffective use of funds. There are also code upgrade threshold implications as more money is put into the existing building.

Mr. Johnson reviewed the next steps:

- Building Committee to consider merits of project “add-ons”
- Refinement of AHS summary of spaces
- Continue to solicit feedback, including ongoing monthly community forums
- Determine construction project delivery method (Design-Bid-Build vs. Construction Manager-at-Risk)
- Bring project to full community for consideration and approval of \$1.3 million additional Schematic Design funds at Town Meeting
- Develop Schematic Design documents for issuance of two independent construction cost estimates
- Establish Project Scope and Budget
- Bring Project to community for approval at Town Meeting and ballot vote

## B. Financial Considerations

Town Manager Andrew Flanagan reviewed the financial considerations of the Andover High School Building project including an update on the debt limit, potential impacts to bond rating and an overview of cost variables.

Mr. Flanagan stated that the debt limit for every city and town in the state is 5% of the community’s value. Andover’s current debt limit is \$510M with \$101M committed, leaving a balance of \$409M in debt capacity. The building options presented are all in excess of \$409M. The relationship between a community’s debt service and debt limit is not a factor considered by the rating agencies because it is not inclusive of total debt. Certain debt is considered outside the debt limit including MSBA supported school building projects and debt approved by legislation to be outside the debt limit.

Mr. Flanagan stated that the House of Representatives did not include an amendment to the FY2024 budget that would exempt non-MSBA supported school building projects from a city or town’s debt

limit. The Senate included this amendment in their budget so it will now go to Conference Committee. The Governor would then have to sign it if it is included in the final budget.

Mr. Flanagan reviewed the potential impacts that the high school building project could have on the Town's AAA bond rating. He noted that the Town's current debt profile is considered weak. A municipality's debt profile consists of its outstanding debt service plus the total of its unfunded liabilities. Andover's weak debt profile is based on a combination of approved spending, major capital projects and an historical lack of investment in unfunded liabilities. The Town's General Fund "non-exempt" Capital Improvement Program is seen as a positive and should not have an impact on the rating as long as the Town continues to adhere to an annual target for investment in capital projects. In a May 2023 letter Standard and Poor's noted that Andover's weak debt profile is mitigated through a low discount rate on its pension liability and its excess levy capacity. In a December 2022 letter Standard and Poor's stated that the issuance of material new money debt could put pressure on the town's bond rating.

Mr. Flanagan went through an exercise to look at debt metrics today compared to 15 other AAA rated communities with populations of 25,000 or more. The debt metrics were General Obligation Bond Outstanding Debt, Bonded Debt Per Capita, Per Capita EQV (equalized valuations), Unfunded Pension Liability and Unfunded OPEB Liability. He noted that there are a lot more communities that have greater value per capita that have greater debt per capita than Andover, but Andover has a much lower unfunded pension liability with \$165M on the debt service side (General Obligation Bond Outstanding Debt) from funding the pension liability. The funding of Andover's General Obligation Bond Outstanding Debt is \$291M.

Mr. Flanagan reviewed General Override Funding with the 15 comparable communities. He noted that many of these communities did a better job than Andover in managing their unfunded liabilities through Proposition 2 ½ general operating overrides. This allowed these communities to raise additional revenue by increasing their levy limit and manage their unfunded liabilities through cash appropriations over time, avoiding major accrued unfunded liabilities. He noted that Andover has never increased its levy limit more than the allowable 2 ½ annual increase.

Mr. Flanagan showed Andover's current debt metrics compared to similar AAA rated communities with a population greater than 25,000 as prepared by the Town's Financial Advisor, Hilltop Securities. It showed that Andover is 19 out of 23 for Outstanding Debt, 20 out of 23 for Bonded Debt Per Capita and 8 out of 20 for Principal to be Retired in 10 Years. These metrics contribute to Andover's weak debt profile. Mr. Flanagan then performed an exercise applying the debt metrics to a potential \$460M AHS building project. He noted that the actual impact to the debt profile is unknown because the rating agencies develop the debt profiles. In this exercise Andover would be ranked 23 out of 23 in all of the categories. The differential between Andover and 22<sup>nd</sup> ranked community would be as follows:

- Outstanding Debt: +\$282.2M (Brookline)
- Bonded Debt Per Capita: +2,767 (Brookline)
- Principal to be Retired in 10 Years: -16.1% (Arlington)

Mr. Flanagan stated that he has a high level of confidence that under this scenario Andover's rating would be downgraded. This is another aspect of the project that the community will have to weigh. The final rating is unknown. The rating could potentially drop two levels because the town already has a weak debt profile and S&P warned in their December 2022 letter that any new debt issuance could make the debt profile very weak.

Mr. Flanagan further reviewed the potential impacts of a downgraded bond rating. He showed the effects of an increased borrowing rate on debt service from \$5M to \$100M over the course of 30 years in increments from .25% to 1% to the borrowing cost. The potential downgrade would increase borrowing costs for an AHS building project and all other projects and/or purchases of land or equipment funded by the CIP. He noted that the CIP is generally \$5M, and a 0.50% increase in the

borrowing rate over a 10-year period would be an additional \$138,529. For a \$500M project, 0.50% is an additional \$40M for a 30-year term. The potential downgrade likely would not occur until the initial borrowing for a the AHS building project.

Mr. Flanagan gave an overview of the cost variables and asked for input on what should be modeled. He added that there are other non-cost variables including potential impacts to educational program and the actual project completion date. The cost variables are:

- Project Cost Escalation: 20 year average is approximately 5.5% annually.
- Impact to Bond Rating and Borrowing Costs: Potential increase borrowing costs resulting from a downgrade and everything not paid for in cash costing more. This would lead to less capital projects being funded.
- Economic Conditions and Borrowing Costs: Fluctuations in base borrowing costs resulting from economic factors. This can be modeled in both directions.
- MSBA Reimbursement: Potential future reimbursement from MSBA.
- Maintaining the current Andover High School: It is anticipated that significant capital investment will be necessary in order to keep AHS operating into the future. Come of this could be included in the CIP, but it may also require a debt exclusion.

Ms. Danisch opened the floor to any questions from Board and Committee members.

Mr. Haskell noted that the next step is for voters to approve \$1.3M for schematic design. He asked if there is the potential for everything to be fleshed out in the time between now and that Town Meeting. Mr. Flanagan stated that in that time frame everything could be worked out. Mr. Haskell questioned how one explains to Town Meeting the implications of a downgrade. Mr. Flanagan stated that the only way to explain it is to provide what the borrowing costs are at different rates.

Ken Russo asked what the probability is that the state will pass the amendment. He noted that if the amendment does not pass the Town by law cannot obtain funding. Mr. Flanagan stated that he is not familiar enough with the legislative process to answer that question. He noted that Mr. Finegold seems confident that it will pass. If it gets to the Governor for signature, he expects that she will sign it.

Mr. Russo asked what the next decision point is if does not make it into the budget. Mr. Johnson stated that there are other alternatives if the amendment does not pass, including legislation, but it may delay the project. The Committee would look to continue using the funds available in hopes that the legislation will pass and then will go to Town Meeting for additional funding.

Ms. Colby-Clements noted that the total cost of the project does not include borrowing. She asked if what has previously been presented on the cost to the average taxpayer anticipated a down grade. Mr. Flanagan stated that it did not. She requested that those numbers be updated to reflect a possible downgrade and she also asked to be provided numbers on how it will affect the borrowings that are made each year. She would also like modeled how this compares with the escalation of project delay.

Dr. Lauren Conoscenti asked for clarification that in any scenario the Town will run into the issue of possibly being downgraded because of the large amount of the borrowing. Mr. Flanagan stated it all depends on when the Town makes the borrowing and what the state of the Town's debt profile is. He noted that in the next seven years the town will retire over \$100M in debt. If the markets perform well in the future the retirement system may be over-funded and the unfunded OPEB liability will go down by tens of millions of dollars which will change the debt profile.

Mr. Michael Prout asked if there was anything stopping the Committee from moving forward with schematic design. Mr. Flanagan stated that there is nothing stopping the Committee from moving

forward with schematic design. He added if the schematic design funding is approved the Town may have a note in their next S&P letter stating that they are paying attention to the project.

Ms. Scully stated that borrowing will not take place for several years so there is time to figure this out. The Town should model if they over invested in retiring pension debt. She voted to get rid of the pension obligation debt so that the Town would be able to take on other construction projects. If the pension fund is overfunded the Town should reallocate those funds for other priorities. Mr. Flanagan stated that if the Town had not funded the pensions the debt profile would be worse than it is today.

Ms. Scully noted that the pension is funded at 95% and questioned what the funding percentage is of Lexington that is funding a large building project on their own. Mr. Flanagan stated that Lexington is about 76% funded. He added that the town is not choosing to overfund the pension, the pension is currently overfunded due to market performance. If the market continues to perform well, the Town could reduce the annual appropriation to the pension fund.

Ms. Colby-Clements asked if this design is set in stone as the layout even if the project is paused. Ms. Nicosia stated that the design is for 21<sup>st</sup> century learning and the work of the building committee would not be thrown away.

Bill Ham of Wildwood Road stated that very few people will understand what has been presented tonight. It needs to be simplified because all people will see is a 20% increase in their taxes if you build a new school.

Ms. Gilbert asked if work such as adding additional classroom or fixing the elevator could be done without triggering code compliance. She felt that the Town wouldn't get very far in a targeted investment without having to bring the entire building up to code. Ms. Nicosia stated that once you spend 33% of the assessed value of the building you have to bring the whole building up to code including fire code and architectural access code. The current value of Andover High School is \$17M. Replacement of mechanical systems kind for kind is not counted in the 33%. She is unsure if detached modulars would trigger code compliance for the whole building.

#### **IV. Adjourn**

On a motion by Mr. Vispoli seconded by Ms. Gilbert the Select Board adjourned their meeting. Vote: Unanimous (5-0.)

On a motion by Ms. Scully seconded by Dr. Conoscenti the Andover High School Building Committee adjourned their meeting. Vote: Unanimous (10-0.)

On a motion by Ms. Colby-Clements seconded by Mr. MacKay the Finance Committee adjourned their meeting. Vote: Unanimous (8-0.)

The Joint Meeting was adjourned at 9:25 p.m.

Documents: Andover High School Building Project Update to Select Board and Finance Committee Presentation  
Andover High School Building Project Financial Considerations Presentation

Respectfully Submitted,  
Kathryn Forina