

Great School – yours for half price

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Four years ago, the towns of Manchester and Essex agreed to build a new combined high school and middle school. Today that school has been operating for six months. Leaking ceilings, makeshift classrooms carved out of the library, and the “cafetorium” are all behind us. Aside from a tendency for eighth-grade students to lock themselves in the elevator, the new school started up very smoothly. Our great students and teachers have a school that reflects the importance both towns give our educational system.

How will all this news affect your tax bill? It will go up, but only half as much as the package that was approved. In 2006, the estimated cost in the year after the bonds were issued was \$159 per \$100,000 of valuation in Manchester and \$215 per \$100,000 in Essex. A current analysis shows that the highest cost will occur in FY 2012. Manchester property taxes will include \$72 per \$100,000 for the school. In Essex the cost will be \$100 per \$100,000. The rates are different in the two towns because the formula for dividing capital costs includes the relative population as well as property values. We are repaying the principal of the debt at a constant rate, so the effect on the tax rate in 2030 will be \$40 per \$100,000 in Manchester, and \$56 per \$100,000 in Essex.

Why is the impact on the tax rates of the new Manchester Essex Regional Middle and High School half what the 2006 predictions?

First, the project came on budget and on time. When our building project started, cost overruns were common. According to the Boston Globe on September 6, 2006, 60% of school building projects studied by the School Building Authority finished more than 5% over budget. Many projects were seriously over budget. According to the Globe “The construction of Middle School North in Groton - Dunstable, for example, cost \$15 million, 95 percent more than its original estimate of \$7.7 million. The Ottoson Middle School in Arlington cost \$15.2 million, 80 percent more than its original budget of \$8.4 million.” If our new school had followed that pattern, the school committee would be going to the voters of the towns, asking for more money rather than bringing good news.

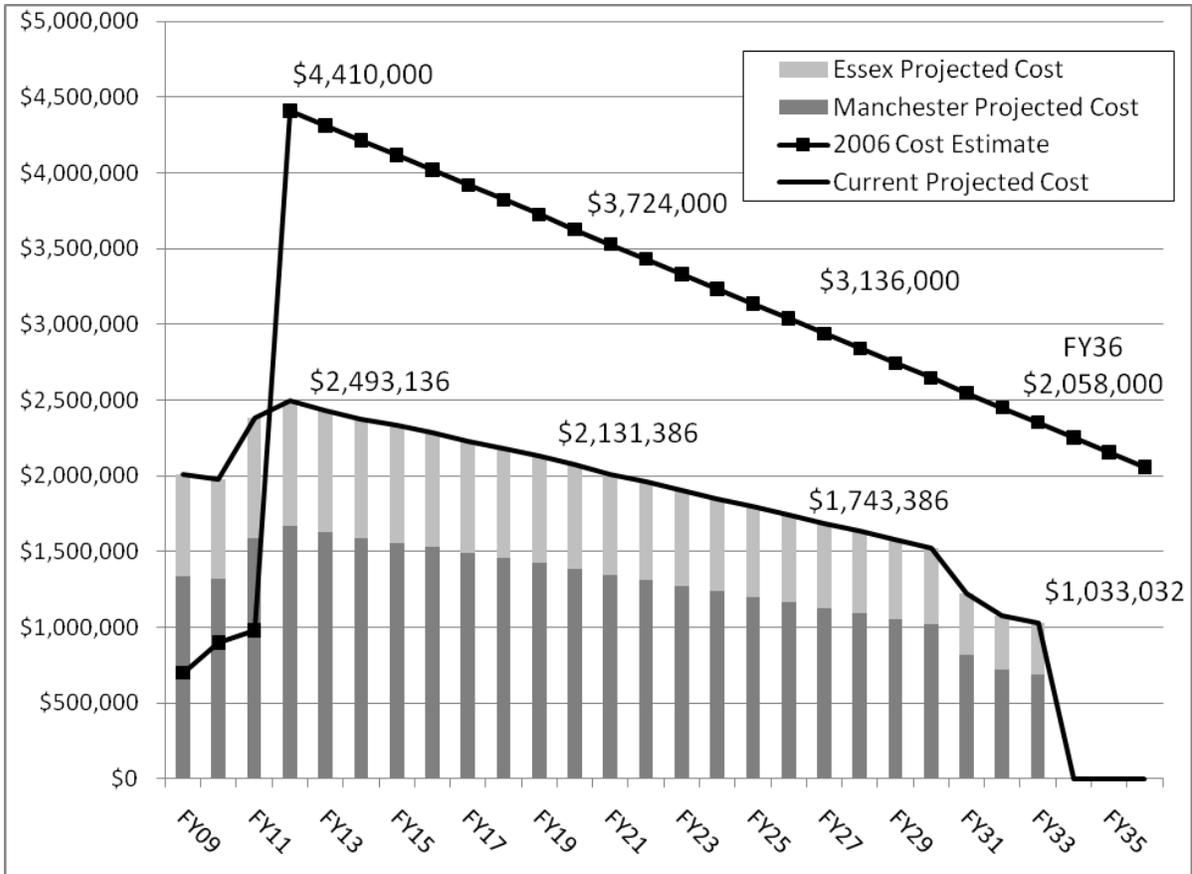
Second, we got unexpected help. When our project started, Massachusetts had stopped the school building assistance program that had funded 40% or more of the costs of constructing new schools and renovating old ones. The voters of Manchester and Essex decided that the need for a new school was so great that they would pay the whole cost, rather than wait years to see what rules and reimbursement schedules the newly formed Massachusetts School Building Authority (MSBA) would develop. The School Building Committee worked closely with the MSBA as it developed regulations and funding policies, closely enough that the regulations reflect our project. In August 2008, the Manchester Essex Regional School District received the first \$10,000,000 of state funds for school construction. Since then, we have received another \$5,000,000 and expect to receive at least \$2,000,000 more.

Third, timing helped. The “Great Recession” has been hard on both towns, but it did produce very low interest rates. Over the life of the bonds, our interest cost will be less than 4% per year. The estimate we used in 2006 was 5.0%. We were also fortunate that our bonds were issued when there was liquidity in the capital markets.

The details of the bond issues are not completely settled. The school district issued bonds for \$25,000,000 in January of 2008 and for an additional \$5,000,000 in February of 2010. When the playing field and parking lots are finished and the district and MSBA complete negotiations, there will be another bond issue of somewhat less than \$2,000,000. This analysis assumes that the district will need to bond the full \$2,000,000.

The interest rates are fixed, but complicated. Each year, the district pays 1/25 of the principal of the first bond issue and 1/20 of the principal of the second bond issue. The bond issues were sold in slices based on the pay-off date of the principal. Each slice has a fixed interest rate, but different slices have different rates. The rates on the first bond issue are between 3.5% and 5.0%, depending on the redemption date. The rates on the second issue are between 2.0% and 4.0%. The analysis assumes that the third issue will have a 4.0% interest rate. Anyone interested in more details should contact Avi Urbas <urbasa@mersd.org>, the incoming business manager.

Good planning, supervision, cooperation with MSBA and luck combined to reduce the cost of the new building by more than half. This chart shows the total payments by both towns under the current funding plan. The cost to Essex is stacked on the cost to Manchester. The higher line is the total cost to the towns as estimated in 2006. The lower line is the current estimate of the total cost to the towns, year by year.



Here are some comparisons of the additional amount on a quarterly tax bill in the next years of that was anticipated in 2006, the current expected increase, and the saving realized by a combination of a well-run project, unexpected support from the state, and favorable interest rates on houses of a few different assessed valuations:

School Building Project -- Impact on Quarterly Tax Bills							
Assessed Valuation	Manchester				Essex		
	2006 Estimate	2010 Estimate	Quarterly Saving		2006 Estimate	2010 Estimate	Quarterly Saving
\$375,000.00	\$149.24	\$67.71	\$81.52		\$201.61	\$93.47	\$108.14
\$500,000.00	\$198.98	\$90.28	\$108.70		\$268.81	\$124.62	\$144.19
\$750,000.00	\$298.47	\$135.42	\$163.05		\$403.22	\$186.93	\$216.29
\$1,000,000.00	\$397.96	\$180.56	\$217.40		\$537.62	\$249.24	\$288.38