

**TOWN OF SALISBURY FINANCING PLAN**

**FOR NEW POLICE STATION PROJECT**

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**APRIL 21, 2015**

This presentation is designed to provide information for the public about all aspects of the Town's plan to build a new police station on Beach Road. A full explanation of the plan was televised live on SCTV, Salisbury's local cable television station, on April 21, 2015 and will be replayed at regular intervals.

Questions? Please call the Town Manager's office, at (978) 465-2310

- **HISTORY**

- **How long has the police station project been in the planning stages?**

- Town Meeting approved \$25,000 in funding for capital needs study for Police Department, Fire Department, and Dept. of Public Works in 2011

- **Why wasn't the new police station planned before the new library?**

- Town began planning for library in 2007

- Grant application submitted in Jan. 2011

- Grant of \$3.8 million awarded in Oct. 2012

- Town Meeting approved borrowing at May 2013 Town Meeting

- Town needed to act within certain time frame to retain grant award

- Capital plans for other departments put on hold during library planning

- **When did the police station project start up again?**

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- Town issued a Request for Proposals in Fall of 2012
- Facilities Committee formed
- 5 responses received in January 2013
- HKT Architects selected – solid reputation for designing public safety and DPW facilities

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- **What happened next?**

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- HKT issued report in June 2013
- Police, Fire and DPW facilities deemed insufficient to meet long-term needs of Town
- Recommended police station be replaced first – worst condition
- Facilities committee agreed

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- **What was the proposed size and cost of the new Police Station?**

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- HKT recommended 19,685 square feet, at overall cost of \$10.7 million

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- **Have there been any other Town Meeting approvals for the project?**
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- Fall 2013 Town Meeting approved borrowing of \$197,700 for schematic design
- Fall 2014 Town Meeting approved borrowing of additional \$433,500 to fund the final design and construction bid documents
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- **What has happened since then?**
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- Size of station reduced to 17,983 square feet – slightly more than library
- Design work has continued and new cost estimates have been developed.
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- **What is the new cost estimate for the station? Why is it more expensive than the library?**
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- New construction estimate is \$8.5 million; total cost now \$11.5 million  
Higher construction cost due to security needs
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- **FINANCING**

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- **What is the Town's portion of the total project cost?**
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- No State or Federal grants available
- Town must absorb entire cost
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- **What is the Town's plan for funding the \$11.5 million?**
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- The plan has two components:
- Request to approve debt exclusion override
- Selectmen voted to place on the ballot for the May 12th town election  
Majority vote is need for approval
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- Vote at Town Meeting to borrow the money
- Two-thirds vote is needed to approve any borrowing by the Town.
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- **What is a debt exclusion override?**
- Two basic types of override questions:
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  - General override question allows voters to approve extra spending for any purpose, beyond the normal restrictions of the Town's budget
  - Extra spending, if approved, becomes permanent part of Town's budget Cost of the extra spending is added to all property tax bills
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  - Debt exclusion override question allows voters to approve extra spending for specific capital expenditure for which the Town needs to borrow \$\$\$
  - Extra spending, if approved, expires at the end of the term of the borrowing (bonding).
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- **Has the Town ever approved a debt exclusion override, and when do those overrides expire?**
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  - Town approved this type of override for new Salisbury Elementary School and renovations to the Triton middle/high school
  - Override for Salisbury Elementary expires in Fiscal Year 2019, and override for Triton school project expires in Fiscal Year 2021
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- **How much will the debt exclusion override for the police station cost the average taxpayer in Salisbury?**
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- Estimated \$240 first year cost for owner of average single family home – if project begins in summer of 2015 and borrowing begins in Fiscal Year 2017
- After 5 years, cost goes down to less than \$200 per year
- Average cost over 20 year borrowing period about \$170 per year
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- **What will happen if the override fails?**
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- If override fails, vote to authorize borrowing for project becomes moot
- Cost of a new police station will only go up over time
- Longer the Town waits to make a decision, the more costly new station will be
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- **What happens if Town's voters decide to postpone approval?**
- Current estimate for inflation factor for construction is 4% for next year and approx. 3.6% per year afterwards
- Postponing construction for 5 years would add about \$1.5 million to cost, plus interest

- **\$240 is a big increase in the average tax bill. Does the Town have options to reduce this cost? What are the challenges the Town faces?**
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- Biggest impact of increase is in first five years
- Town has a plan to reduce the cost for taxpayers for those five years.
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- Biggest problem with taking on additional debt now is that the Town is still paying down debt from the school projects
- Good news is that these debts will be fully paid off in Fiscal Year 2021. After that date, effect of new police station will be reduced to about \$60 more per year than what taxpayers paying now

- **How can the Town reduce the impact of borrowing for a new police station over the next five years?**
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- Three primary factors to absorbing debt costs are:
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  - Borrowing costs (interest rates)
  - Timing
  - Use of other resources
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- **Borrowing costs**
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- Current estimate based on conservative estimate of 5% borrowing rate
- Actual rate is likely to be much lower
- Difference of 1% in interest rates has significant impact on borrowing cost
- Example: Borrowing \$11.5 million at 5% = total cost of \$17,250,000
- Borrowing at 4% = total cost of \$16.1 million (\$1,150,000 savings)

- **Timing**
- Town can delay permanent borrowing
- Use of Bond Anticipation Notes (BANs)
- Town can “roll over” BANs – pay only interest until project is complete
  
- **Taxing Under the Levy Limit/Using Free Cash**
- Levy Limit is total amount of taxation a community can raise per year
- Add 2.5% to previous year’s levy, plus any “new growth”
- Town may not exceed its levy limit, but it also does not have to spend up to this limit – can create “excess levy capacity”
- Maintaining certain amount of excess levy capacity can help offset cost of police station
  
- **Using Free Cash**
- Town can use Free Cash yearly to reduce amount to be raised through taxation
- Use of Free Cash can help offset cost of police station

- **Town's Plan for Mitigating the Effect of Police Station Override in the First 5 Years**
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- Issue BANs during construction and roll over through Fiscal Year 2018
- Absorb cost of interest in Town's budgets for FY2017 and FY2018 (est. \$230,000/ year)
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- Put \$600,000 from Free Cash into Town's Stabilization Account over next 3 fiscal years (FY 2016, 2017 and 2018)
- Reduces amount to be raised by taxation in Fiscal years 2019, 2020 and 2021
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- Town maintains certain amount of excess levy capacity through Fiscal Year 2021
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- **What Will the Effect of This Plan be on Salisbury's Taxpayers?**
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- FY2016 – No effect
- Interest from the BAN will take effect in FY2017
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- FY2017 – No effect
- BAN interest will be absorbed within the Town's budget
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- FY2018 – No effect
- BAN interest will be absorbed within the Town's budget
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- FY2019 – If \$400,000 in Free Cash is utilized and the Town retains at least \$220,000 in excess levy capacity, net cost of the override to the average taxpayer will be about \$60
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- FY2020 – If \$100,000 in Free Cash is utilized and the Town retains at least \$65,000 in excess levy capacity, the net cost of the override to the average taxpayer will be about \$60, as Elementary School debt will be retired
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- FY2021 – If \$100,000 in Free Cash is utilized and the Town retains at least \$28,000 in unused levy capacity, net cost of the override to the average taxpayer will be about \$60
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- FY2022 – With retirement of Triton middle/ high school debt, net cost to the average taxpayer will remain at about \$60

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- **SUMMARY**

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- Planning for future building needs is a sound management practice, no matter when the Town is able to afford to move forward and actually construct new buildings

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- Town has very little long-term debt on the books, and most of it will be retired in the next five years
- Due to low interest rates, now is good time to invest in new police station  
Delaying action will only cost the Town more money in the long run

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- If Town manages project well, and implements the plan I have outlined, we can mitigate the impact of the police station override over the next five years and build a new station that will last for several decades
- It is now up to the voters (on election day, May 12<sup>th</sup>) and those who attend Town Meeting on May 18<sup>th</sup> to decide whether the plan we have proposed is one they can support