

To: Andover High School Building Committee (SBC)
Andover West Elementary Building Committee
Andover Finance Committee
Andover Select Board
Andover Education Association
Andover School Committee

From: Mike Meyers
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RE: Proposed New High School Due Diligence

Dear Chairman Johnson:

I write as follow-up to our meetings relative to the proposed new AHS project (the “Project”). I welcome your invitation to share my comments. The due diligence assessment is based on the author’s decades of public finance, tax forecasting and design & construction management for national development firms.

Introduction

The Andover High School Facility Study Committee was formed in January 2017 when enrollment peaked at AHS. The Committee’s goals, as described in its website, were to explore options for programming capabilities at AHS. The Committee reviewed prior facility and enrollment studies; selected an architectural firm (HMFH Architects) to develop a preliminary feasibility study; refined the goals for the project; worked with a demographer to project future enrollment at AHS; “and worked with HMFH to develop a wide range of options and cost estimates”.

In February 2022, a successor Committee, the Andover School Building Committee (SBC), was established pursuant to the regulations (963 CMR 2.10 (3)) of the Massachusetts School Building Authority (MSBA). Since that time, there has been significant concern expressed from numerous Select Board members, Finance Committee members and the community regarding the lack of financial transparency on the multi-year cost estimating and enrollment efforts. Most recently, the SBC (the “Committee”) web site referenced its prior “financial analysis” to support its intent to proceed with asking the taxpayers to foot the entire bill for a new high school. While some financial analysts estimate that cost in the range of \$400,000,000 +/-, the Committee has still not shared any of its estimating, independent enrollment studies or financial analysis with the public.

A \$400,000,000 tab for such a historical endeavor will burden Andover residents with an average property tax increase of over \$1,700 per year for the next 30 years to pay back the \$693 million indebtedness for the project (please see attached analysis). It is imperative that the Committee

present concrete, economic analytics to the public. To shepherd a \$400 million initiative without comprehensive financial due diligence is imprudent.

Hence, the purpose of this assessment is to provide a framework for an informed public policy discussion. High level project cost forecasting based on incurred quantifiable data (from the 2023 West Elementary School project) and a review of the two available financing options (self- fund via property taxes v. partnering with the MSBA) are also explored.

A brief review of the project history may be of assistance in moving the public policy dialogue to a more visible arena.

Facts

Andover High School

Development History:

The facility development history of the AHS campus follows:

- Main academic building (1966)-135,552 sqft
- Dunn gymnasium (1966)-41,641 sqft
- Collins Center (1983)-16,183 sqft
- Science wing (1995)-41,888 sqft
- Entry lobby, art classrooms (1995)-23,286 sqft
- Fieldhouse (1995)-28,385 sqft

Enrollment and Over-Crowding:

The renovation and additions in 1995 were completed with an anticipated capacity of 1,600 students. Enrollment later peaked at 1,806 in 2016 and has been in decline since that time.

- According to the Massachusetts Department of Elementary and Secondary Education (DESE), the 2022-2023 enrollment at AHS is 1,662 students (3.9 % above capacity). The DESE enrollment data by grade extrapolates to an enrollment of 1,641 students in 2030 (2.5 % above capacity). The 2030 estimate is further mitigated by the annual 7-10 % of 8th graders who decide to enroll at private schools rather than AHS (see 2013 SOI). This adjustment results in a 2030 enrollment estimate of 1,477 which is 7.7 % below capacity.
- The Committee justifies its over-crowding contention based upon a yet undisclosed update of its 2016 enrollment study. At the same time, the Committee's website acknowledges the downward trend of public school enrollment in Andover and statewide.
- The over-crowding supposition is also questionable whereas the most recent MSBA facility survey graded AHS with favorable scores in their evaluation of building condition, general environment and capacity utilization by their architectural and engineering experts.
- There also appears to have been enrollment certification deficiencies submitted to MSBA by Andover pursuant to 964 CMR 2.06 (3) that may have impeded the AHS reviews.

Hence, it may be prudent to re-examine the alleged over-crowding on a more thorough basis before embarking upon a \$400 million dollar performative recommendation.

Regardless of the lack of financial transparency and inconclusive enrollment forecasts, it appears the Committee intends to continue design development and seek subsequent voter approval for an estimated 424,261 gross floor area (GFA) new building under the 3-3-23 program entitled “**Campus 2 with Auditorium**”. The Committee plans to seek \$1.3 million in May, 2023 for the continued drawings by the architect.

The Committee also plans to request voter approval for a January, 2024 Proposition 2 and ½ over-ride to fund the project entirely from property taxes. This action means proceeding with the \$400 million facility without the technical program, design, contracting, construction and legal expertise of the MSBA. It also means foregoing an estimated \$98 million of MSBA funding.

Massachusetts School Building Authority

History:

MSBA is a quasi –independent governmental public finance authority established in 2004 to facilitate the design and construction of public schools throughout the Commonwealth. MSBA replaced the 1945 School Assistance Bureau of the Department of Education wherein funding was subject to annual approval by the Legislature. The Authority is funded by an irrevocable dedicated revenue stream equivalent to one percent (1%) of the Massachusetts sales tax revenue derived from the state’s 6.25 % sales tax. The Trust is subject to an annual increase equivalent to the lesser of 4.5 % or the change in sales tax receipts from the prior fiscal year.

MSBA collaborates with municipalities to equitably invest in responsible school development. It has established comprehensive educational standards, metrics, design, contracting and legal guidelines for creating educationally appropriate and cost effective public school facilities across the 1,757 public schools in Massachusetts. Since its inception, MSBA has provided funding for over 600 schools totaling \$16.3 billion based on a series of school building age, demographics, enrollment forecasts, building infrastructure conditions and other economic variables.

MSBA Process:

School districts seeking a partnership with MSBA may submit a Statement of Interest (SOI) to commence the evaluative procedures and prioritization. Each year over 100- 125 school projects are submitted for consideration, with 10-12 projects vetted for final Core Program funding assistance. Each School District can submit multiple school SOIs annually, but must prioritize their school projects. Only one school can be stipulated each year as the “District Priority” to receive MSBA consideration and due diligence. Districts apply for one of three types of MSBA assistance as part of its feasibility study: Renovations and Additions; Repairs; or School Building Construction. MSBA confirms there are no statutory or regulatory restrictions on the annual number or frequency of SOI submittals. Nor are there any stipulated waiting periods for prior District Priority funded projects to closeout. Any particular school project approved within the past 10 years is ineligible for subsequent funding for the same project scope.

MSBA regulations (963 CMR 2.09 (5)) also present further qualifying parameters: “No Statement of Interest shall be considered by the Authority for the purposes of student overcrowding if the Authority determines, in its sole discretion, that such overcrowding is the result of district student assignment policies which created such overcrowding or district operational budget constraints which caused the vacancy of classrooms or the overcrowding of classrooms due to personnel reductions.” MSBA cautions that teacher reductions may exacerbate the illusion of overcrowding. The Andover SOI submittals for 2010, 2011 and 2013 all document teacher reductions, which may have further impeded the eligibility of Andover’s proposed MSBA partnership for those years

AHS Participation:

Andover has received over \$108 million in MSBA funding support for the following seven (7) schools:

- a. Andover High School - \$24.7 million
- b. Andover West Middle - \$.6 million
- c. Bancroft Elementary - \$15.8 million
- d. Henry C. Sanborn Elementary - \$3.4 million
- e. High Plain Elementary - \$18.9 million
- f. South Elementary - \$6.8 million
- g. West Elementary - \$38.4 million (in progress)

MSBA confirmed “Andover High School was indicated as the District Priority SOI in 2010, 2013, 2018, 2019, 2020, and 2021” (six 6 times), with all six requesting either AHS “Repairs” or “Renovations/Additions” as project scope. The Committee’s position that AHS has been denied 10 times and that “AHS has never been selected” is not accurate and optically misleads public policy dialogue. It also appears the AHS submittals may have been deficient in multiple categories. In summary, the Committee should be more cautious with its representations as it causes public confusion and leads to misguided policy recommendations.

Bancroft Elementary (built in 1969), West Middle (1956) and West Elementary (1952) were each the “District Priority” in 2008, 2011 and 2012. Contemporaneous submittals of AHS SOI’s for these periods are not reviewed when they accompany a District Priority school. Hence, it is inaccurate to categorize the AHS submittals as MSBA denials for these three years.

Project Forecasting Model and Financing Options

The primary intent of the analysis is to use the actual 2022/2023 project cost data from West Elementary as baseline to evaluate the costs of the two alternate financing options. The Committee contends that their “financial analysis shows continuing to wait for MSBA program acceptance is not financially responsible, primarily because construction costs are increasing at a higher rate than the MSBA reimbursement rates.” That logic is inaccurate as both the MSBA eligibility rate and reimbursement rates are relatively constant functions of the evolving eligible cost. The self-pay premium remains static regardless of the cost multiplier over time.

The purpose of this assessment is to provide the public with an informed policy dialogue and financial transparency. The community is not well-served when the Committee presents policy recommendations without fully developing and sharing its direct, indirect and associated risk assumptions.

To assist in the appreciation of the magnitude of the project, a cost model has been developed below. Andover has two available financing options if it wishes to proceed with a new high school: self - fund via property taxes v. partnering with the MSBA.

The first step in the model is to establish the baseline economics:

- The model is an order of magnitude based on the actual hard and soft costs incurred by the West Elementary School project (“West L”). All associated costs, MSBA grant \$, ratios, financial metrics and average property tax increase have been provided by the West L Building Committee. West L is the baseline for the AHS cost analysis
- The model will be enhanced by the construction estimate derived from the architectural and engineering drawings, specification and takeoffs. That exercise is underway by the project architect, Owner’s Project Manager and two estimating firms.
- The AHS cost forecasting is constructed from the program entitled “Campus 2 with Auditorium” (the “Program”) which appears to be the SBC’s preferred site approach and design option.
- All MSBA reimbursement ratios and eligibility costs are carried per the West L baseline and factored accordingly for the AHS Program and GFA
- The model is pliable and can accommodate exogenous variable changes in program, GFA, cost inflators, construction start and duration and other external determinants.

The key components of the model data points and calculations are attached.

Summary of Findings

- **The projected project cost for the “Campus 2 with Auditorium” program is \$429.3 million in 2026 dollars.**
- The Committee proposes to proceed without the partnership with MSBA (Option 2 on the attached spreadsheet). This equates to a \$1,768 annual increase in the average property tax bills for each of the next 30 years to repay the \$694 million project indebtedness.
- Under Option 1 on the attached spreadsheet, MSBA will assume \$98.5 million of the total cost upon acceptance into its Core partnership.
- This equates to a \$1,362 annual increase in the average property tax bills for the next 30 years.
- The premium for asking residents to forego partnering with the MSBA is an increase of \$405 per year (29.8%) above the MSBA partnership option.
- This premium remains the same percentage regardless of the construction cost multiplier. For instance, a 2030 inflator at .05/year results in the same 29.8 % premium for the self-fund scenario.

- This increase is also alarming with respect to the town’s annual debt obligation. The annual debt service in FY 23 is already more than double from FY 22. Proceeding with Option 2 adds another \$1.9 million annually or 17.4%. These sudden increases will certainly warrant a market watch from the rating agencies and perhaps trigger a down grading from the town’s current AAA bond rating.
- It is of interest to note that MSBA also promulgates space programming dimensions based on educational components and use (963 CMR 2.06 (4)). “These standards are reflective of realistic, future-oriented, and contemporary educational program goals and are based on the summation of square foot allocations for each itemized educational space” .**The Andover program design exceeds the MSBA Guidelines by 102,035 GFA. At \$1,105 cost per GFA, this inefficiency equates to an enormous excess cost of \$113.4 million.**
- This inefficiency may be attributable to the designers’ lack of experience. Of the 600 projects funded thru MSBA since 2004, the architect has designed 11 high schools; including five while working for the current Andover management team at different communities.

Recommendations

- **The Committee should be applauded for its efforts to share its design options. The project is a dramatic initiative. But the paucity of reliable data and critical analysis from its management team stands out.** The things ignored and conversely highlighted cloud the perception of reliable public policy. The Committee has elected to keep the associated costs obscured from the public since its initial estimate references in 2017.
- **The Committee needs to pump the brakes and conduct a comprehensive due diligence process before proceeding with spending additional funds.** The public needs to be fully informed on the impact this proposal may have upon their property taxes and future school spending to accommodate the new facility. This process needs to include the full impact of the proposed changes across all of the stakeholders (property tax payers, debt managers, teachers, parents and students).
- **The SBC needs to pursue a more efficient building design that eliminates wasteful space costing in excess of \$100 million.**
- The Committee should present its plan to the AEA for its review and comments. To exclude the most knowledgeable stakeholders about the school curriculum and facility needs is inappropriate.
- There appears to be significant dissent from town officials over the proposed project. Many fear that a \$1,768 +/- increase in the average property tax bill will doom the passage of future school budgets and the continued efforts to attract and retain extraordinary educators. The Andover School Committee aspires to be stewards of exceptional educational advancement when compared to leading school districts in the Commonwealth. A prime driver of the attractiveness of Andover emanates from teacher competencies and the educational excellence they impart. **No one moves to Andover**

because of its water treatment plant or trash services. To jeopardize the learning environment by alienating Andover taxpayers outraged over this tax bill may prove to be a fool-hardy endeavor.

- The Committee needs to provide a thorough examination of all associated costs for the proposed facility. This is a mandatory requirement from the MSBA regulation (see 963 CMR 2.03 (2) (m)): “All Eligible Applicants shall submit documentation supporting the anticipated impact on operating costs of implementing the project in such detail and format as required by the Authority, including but not limited to, an estimate of the costs of additional maintenance spending required of the Eligible Applicant, the costs of additional instructional or support staff spending, additional utility costs, the costs of additional transportation, if any, and the estimated revenue, if any, from the sale or lease of any school facility decommissioned as a result of implementing the project”.
- Other imperatives include:
 - A commitment to transparency and the cessation of false narratives to sell the public a pig in a poke.
 - The further investigation of the over-crowding contention.
 - A more thorough examination of renovation alternatives. The City of Arlington recently completed a major renovation of Arlington High that rivals any new facility and cost a fraction of the estimated \$429 million Andover facility.
 - A thorough review of the inconsistencies contained in the prior AHS SOI submittals to MSBA.
 - An acknowledgement that the MSBA expertise and process is the preferred delivery option

In summary, the provision of reliable data, efficient design and alternative recommendations will best serve the public dialogue.

Thank you for the opportunity to participate in this very important discussion. I will be pleased to answer any questions at your convenience.