

Amy Harvey

From: Roger Stancil
Sent: Monday, May 14, 2018 7:10 PM
To: Allen Buansi; Donna Bell; Hongbin Gu; Jeanne Brown; Jess Anderson; Karen Stegman; Town Council; Michael Parker; Nancy Oates; Pam Hemminger; Rachel Schaevitz; Roger Stancil; Ross Tompkins
Cc: Ken Pennoyer; Amy Oland; Matthew Brinkley; JABE HUNTER; CHRIS BLUE; Loryn Clark; Scott Clark; Susan Brown; Amy Harvey; Beth Vazquez; Carolyn Worsley; Catherine Lazorko; Christina Strauch; Dwight Bassett; Flo Miller; Mary Jane Nirdlinger; Rae Buckley; Ralph Karpinos; Ran Northam; Roger Stancil; Sabrina Oliver
Subject: An alternative approach to the debt management fund tax increase
Attachments: MSC Budget questions
Importance: High

Options for the Debt Management Fund tax increase:

When we developed the Recommended Budget, we included .8 cent tax rate increase for the debt management fund as a fiscally prudent approach to future financial sustainability. I know tax increases are painful to discuss and difficult for a community with a high total tax rate when considering County and Schools taxes as well as the Town. The information below, developed by Business Management Director Ken Pennoyer, points to two alternatives to a tax increase for this fund this year.

- One option is no tax increase this year and, if all stays the same, consider a slightly larger tax increase next year of .95 cents to avoid negative cash flow.
- Another option is to consider modifying the proposed building, which is a major contributor to our debt, and adjust any increase on that new information.

If you consider this approach as one part of a reduction of the recommended tax rate increase, I recommend you eliminate this increase this year. That will also give you time with your new Manager and an opportunity to continue your strategic planning process and consider how this building aligns with your goals.

The Debt Management Fund cash flow projection includes the following assumptions regarding projects that will be financed from the fund over the next 5 years (FY19-FY24).

Project	Financing Cost	Financing Date	Debt Service	Interest Rate
MSC	\$ 34,100,000	5/01/19	\$ 2,430,000	4.0%
Wallace Deck	2,400,000	5/01/19	171,000	4.0%
Affordable Housing	5,000,000	5/01/19	360,000	4.0%
Blue Hill Phase II	2,600,000	5/01/19	184,600	4.0%
Affordable Housing	5,000,000	7/01/20	372,000	4.5%
Streets & Sidewalks	7,700,000	7/01/21	592,844	5.0%

Affordable Housing (AH) Bonds

It is assumed that the Debt Fund tax rate will be increased in the year that the affordable housing bonds are issued in an amount sufficient to cover the additional debt service cost. Based on the assumptions above the rate increase needed would total one penny, applied as follows:

FY20 – 0.5 cents

FY21 – 0.5 cents

Debt Fund Cash Flow (not including AH Bonds)

In order to keep the Debt Fund from experiencing negative cash flow one of two things needs to happen. Either the capital financing plan described above needs to be delayed or reduced significantly or the dedicated property tax needs to be increased. The amount of property tax increase needed depends on the year the tax is applied. The low-point for cash flow is FY2024-25, therefore the tax rate increase does not have to be instituted immediately however it does get more expensive with each year of delay.

Tax rate increase needed *(not including AH bonds)*

FY2018-19 - 0.80 cents

FY2019-20 – 0.95 cents

FY2020-21 – 1.15 cents

FY2021-22 – 1.35 cents

FY2022-23 – 2.0 cents

Delaying or Reducing Projects

The MSC represents the bulk of the Town’s planned borrowing for the next 5 years, therefore any change to projects to delay or avoid a tax increase in the debt fund would impact that project. In order to avoid a tax increase in the debt fund altogether, the cost of the MSC would need to be reduced by \$9-10 million. Alternatively the project could be delayed approximately three years. This would solve the cash flow problem in FY2024-25, but the building cost is expected to escalate by 6% per year, adding about \$5 million to the project.

Building Information and Options:

To determine the options for reducing the costs of the MSC building, we asked our architect, Eric Schoenagel, AIA, LEED® AP, for his perspective. I have attached his email as shown below.

Following up on our conversations, I wanted to share some points for consideration in evaluating the projected construction costs and potential cost savings strategies for you to discuss with the Town Council. First, it’s important to understand that when we create preliminary construction budgets we utilize a cost per square foot model to develop the budget. As such, there are only 2 ways to effectively lower the costs. The first is to lower the anticipated costs per square foot (how much we pay) and the second is to reduce the amount of building area (how much we build). I’ll further outline my thoughts on both approaches below. I’ve also double checked with contacts in the construction market place and the currently budgeted amount of \$350/SF does align with similar projects constructed in the Triangle. If the final goal is to create savings of between \$9M and \$10M, I believe drastic measures will be required to achieve that kind of savings.

Cost Savings #1 – reduced construction costs (per sf)

- We believe that with careful consideration of the design of the building, and alignment of needs for the project with the budget, we can target a reduced cost of \$300/sf potentially saving **\$3.6M**. Some enhancements, for example solar panels or full building emergency power, could not be included. However, the building program and anticipated functionality would be preserved. The whole team would have to challenge ourselves to stay focused on the needs rather than the wants and everyone involved in the project, including Boards and Commissions, would need to buy into this approach to help achieve this savings.
- By targeting a reduced cost/sf, we will need to lower the cost of the finishes used within the building. To do this we may have to target specific areas to look at using more cost-effective materials for example linoleum tile in lieu of porcelain tile in the lobby.
- Due to the front-loaded costs with how the site is initially being developed, some savings could be achieved by reducing the amount of site infrastructure initially installed and/or by relocating the building to a flatter area of

the site. Further savings could be achieved by reducing the amount utilities and of storm water measures installed initially.

- It might be possible to further Value Engineer the building, but past a certain threshold (level noted above) the cuts become drastic and generally affect the maintenance and operations of the facility. Typically, the results from this approach are increased operating (energy consumption) and maintenance costs.
- It might not be possible to save the anticipated \$9M to \$10M without drastic value engineering or further reductions to the site development or building area.

Cost Savings #2 – reduced building program area

- Reducing the building to 45,000 sf (cut 40%) a savings of \$9M could be achieved. Careful consideration of the building program would be required to achieve such a drastic cut.
- The Town would need to determine which program areas would be cut. Assuming the police program is not reduced, to achieve a 27,000-sf reduction at least 4 departments would have to be removed from the building in addition to a significant reduction in the shared/collaboration/meeting spaces.
- The reduction in area would reduce the site development area required by reducing parking. The police function might still require the dual entrances and connecting roadways.
- At times, smaller buildings can be less cost effective to build.

As you probably know, the current construction market is very volatile and experiencing a 4% yearly escalation rate. The costs/sf noted in option #1 are expected to work through our bidding in 2019.

If bidding were to be postponed past 2019 the 4% escalation should be included in any budgeting. For the \$25M construction budget (hard costs), this would equate to a \$1.1M in escalated costs. According to my contacts in construction market place, they do not see a reduction in escalation for the next 2-3 years.

Amy Harvey

From: Mary Jane Nirdlinger
Sent: Friday, May 11, 2018 4:14 PM
To: Roger Stancil; Ken Pennoyer
Cc: JABE HUNTER; Matthew Brinkley
Subject: MSC Budget questions

From: Eric Schoenagel [mailto:ESchoena@littleonline.com]
Sent: Friday, May 11, 2018 3:31 PM
To: Mary Jane Nirdlinger <mnirdlinger@townofchapelhill.org>
Cc: 'maryallisonbeck@gmail.com' <maryallisonbeck@gmail.com>
Subject: RE: MSC.....

Mary Jane

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If I can be of any further assistance please don't hesitate to contact me.

Thanks
Eric

Eric Schoenagel, AIA, LEED® AP

Little

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