



**Summer 2016**

**South Burlington School District  
Master Planning & Visioning**

**Financial Analysis Summary Report**

**I. Executive Summary**

In the fall of 2015, the South Burlington School District engaged White + Burke to evaluate the financial and real estate implications of possible school upgrades and reconfiguration. The District gathered, calculated, and provided data and White + Burke conducted research and analysis and prepared broker's opinions of value. All data was entered into a custom-built financial model, reasonable assumptions were applied, and comparative outputs were generated.

Results show that addressing deferred maintenance only (Scenario 1) would be the least expensive option for the District at \$23 million. Upgrading all existing schools to "21<sup>st</sup> Century" levels would be the most expensive at \$216 million. There are a range of options in between, including upgrading, closing, consolidating some, and/or building new elementary schools.

**II. Scope of Assignment**

Over the past few years, the South Burlington School District has been evaluating its physical space and the impact of physical space on educational quality. After the School + Community Master Planning Task Force produced "Recommendations to the Steering Committee" in the summer of 2015, there were a variety of options to consider regarding consolidation of elementary schools, investment into existing buildings, and construction of new facilities. The School Board needed to evaluate the financial feasibility and implications and engaged White + Burke to estimate the overall costs of each option, the scale of differences among the options, and to explore the associated real estate issues and opportunities.

The work was phased and the process was iterative, with input and data from the Board and the administration.

Phase One included:

- Review of existing site data (i.e. physical inventory of deferred maintenance & costs, Task Force process and estimates, site permit histories, all pertinent zoning

and regulations, press articles, appraisals, economic, population & demographic projections, etc.)

- Review of City Council land and development proposal
- Stakeholder analysis of work to-date and individual considerations
- Research market opportunities
- Discussion of and research into financial implications of the sale of a District property with respect to State requirements for capital debt repayment
- Evaluation of new school site (i.e. zoning, physical limitations such as wetlands, adequacy of size, etc.)
- Research of alternative construction funding sources and mechanisms
- Preliminary financial feasibility review
- Routine team meetings
- Meetings with administration and School Board

Phase Two included:

- Financial analysis and modeling
- Further site selection and due diligence for potential new school
- Feasibility and sequencing assessment for timing and developer-community implications

Phase Three included:

- Presentations to the school board
- Presentations to the public
- Updates to the Task Force estimates with educational planner Frank Locker and Dore & Whittier Architects (involved in the Task Force process)
- Further research, analysis, and refinements to financial model

Ultimately White + Burke's role was to provide an objective comparison among the scenarios and provide order of magnitude financial estimates for the Board's evaluation in the larger consideration of educational optimization and feasibility.

### **III. History & Review of Background**

The School + Community Master Planning Task Force's "Recommendations to the Steering Committee," dated June 3, 2015, recommended evaluating Options O and Q. These focused on disposing of elementary schools and consolidating students in two possible configurations

The School Board broadened the options to evaluate the costs of more modest changes and other possible configurations. They also wanted to understand the cost differential between levels of upgrades identified by the Task Force. Upgrades could be to a "Basic" level or could be to "21<sup>st</sup> Century" learning level. The Basic upgrades would consist of optimization and renovations to the existing schools in the existing configuration; 21<sup>st</sup> Century upgrades focus on creating spaces of a variety of purposes and sizes and increasing connectivity between classrooms, with an emphasis on flexibility. (The new school proposed in Scenarios 4 and 5 would be constructed to the 21<sup>st</sup> Century level regardless.) So within Scenarios 2-5, the financial analysis needed to

include estimates for upgrades at the Basic level and the 21<sup>st</sup> Century level for comparative purposes.

The five scenarios developed for the purposes of educational and financial analysis were:

Scenario 1: Stewardship only. This scenario does not propose any reconfigurations of grades or upgrades to schools. This would include only addressing deferred maintenance of all five District properties.

Scenario 2: Stewardship and upgrades. This scenario does not propose any reconfiguration of grades. This includes addressing deferred maintenance of all five District properties. This also includes upgrades for all five properties.

Scenario 3: Sell Chamberlin and consolidate to two elementary schools, plus upgrades. This scenario proposes to close and sell Chamberlin school, move all K-4<sup>th</sup> grade students to Orchard & Marcotte, and move all 5<sup>th</sup> graders to the middle school. This also includes upgrades for all four retained properties.

Scenario 4 (*Task Force Option O*): Sell Chamberlin & Marcotte and consolidate to two elementary schools, plus upgrades. This scenario proposes to close and sell Chamberlin and Marcotte schools, move all K-2<sup>nd</sup> grade students to Orchard, and move all 3<sup>rd</sup>-5<sup>th</sup> graders to a new school. This also includes upgrades for all three remaining properties. [A preliminary assessment was done on an alternative of this Scenario, so-called Scenario 4B. This would propose that Orchard and the new elementary schools both house K-4<sup>th</sup> grade and all 5<sup>th</sup> graders move to the middle school. This is akin to the Task Force Option N.]

Scenario 5 (*Task Force Option Q*): Sell Chamberlin, Marcotte & Orchard and consolidate to one new elementary school, plus upgrades. This scenario proposes to close and sell Chamberlin, Marcotte, and Orchard schools, move all K-4<sup>th</sup> graders to one new consolidated elementary school and move all 5<sup>th</sup> graders to the middle school.

#### **IV. Model Inputs – Factors and Variables**

##### *The Customized Financial Model*

White + Burke custom-built a financial model to compare the various configurations quantitatively.

The team chose to analyze the costs and debt over a twenty-year window. Beyond twenty years, the estimates become too speculative to be useful. Anything less than twenty years does not show the full realization of many of these improvements. For example, some scenarios propose selling some schools and upgrading the other schools in a later phase, resulting in construction lasting until 2028. So in some circumstances debt would continue beyond the twenty-year window (for example, a bond for an improvement in Y5 could have a 30-year bond term, so annual debt service could extend for 15 years beyond this analysis). **But this underscores the**

**purpose of this analysis: this is a comparative tool to evaluate the five scenarios over a consistent period of time.**

There were two major inputs into the Scenarios: **factors** and **variables**. We define “**factors**” as those numbers that can be reasonably estimated. We define “**variables**” as those numbers or inputs that have less specificity and require judgment calls. As a short-hand description: factors are educated estimates and variables are predictions. For example, the cost to build a new school of a certain square footage is a **factor** because construction costs can be estimated by architects and contractors. But when a scenario proposes to construct the school in a future year, those costs need to be adjusted for inflation. That annual inflation rate is a **variable** because we have no firm way to predict future inflation; we have to make a judgment call, such as using the five-year historical average inflation rate and applying it forward.

The **factors** that had reasonable estimates, include: costs of stewardship, accommodations, upgrades & new construction, operational savings, bond structures, cost to acquire Oak Creek, sale price for District properties, State payback amounts, and the tax rate. *It must be emphasized that these are estimates only. They are based on concepts for renovations, new construction, and operational efficiencies. This analysis was done as an order of magnitude assessment; these estimates were sufficient for that purpose. Actual costs or savings cannot be determined until specific plans are prepared. Final costs and savings could vary materially from the estimates used herein.*

The **variables** for which reasonable judgment was used, include: stewardship cost adjustments, bond terms, timing of sales and reconfigurations, tax rate growth, and discount rate<sup>1</sup>.

### *Factors*

Costs of Stewardship: Stewardship estimates were developed by the School District administration based on historic costs and known maintenance needs for the next ten years. (The figures for Years 11-20 are variables – see below).

Accommodations, Upgrades & New Construction: The costs to accommodate students in the existing elementary schools, to upgrade existing schools, and to construct new schools were determined during the Task Force process and updated by the same consultants used by the Task Force in Summer 2016.<sup>2</sup>

As discussed above, upgrades could be done to a “Basic” or to a “21<sup>st</sup> Century” level.

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<sup>1</sup> Determining the value of each scenario is challenging because many of the costs and transactions are projected for future dates and there are different ways to measure the value of future cash flows. A discount rate is a common method for bringing future values into present terms.

<sup>2</sup> The estimates from the Task Force process were determined by Frank Locker Educational Planning and Dore & Whittier Architects. These were updated in Summer 2016 in the “Scenario Cost Comparisons” spreadsheet, dated 1 July 2016. See Appendix A.

The square footage allowance for Basic upgrades at the elementary schools could include the cost of minor, selective changes such as modifying door openings or internal windows to improve functionality, adding shelving, adding sinks to make project rooms, subdividing classrooms to make small group rooms, or improving special education spaces. The cost of upgrading the middle and high schools to a Basic level was based on a set of specific improvements that included meeting NEASC<sup>3</sup> standards and the construction of a new gymnasium and facilities for the middle school.

The costs of upgrading the elementary, middle, and high schools to the 21<sup>st</sup> Century level includes renovations to the structures to accommodate collaborative forms of teaching and would include enhancements to flexibility that the current structures do not allow.

Construction costs for the new school in Scenarios 4 and 5 were determined during the Task Force process and updated by Frank Locker based on the square footages and grades to be housed in these new elementary schools.

Operational Savings: The District administration provided the estimates for operational savings that could occur when a school is closed. They calculated the largest operational costs: the number of FTEs<sup>4</sup> that would be reduced and the utility costs that would be saved by consolidation. Because this amount would be saved each year compared to the alternative, this is shown as an annual savings. For example, in Scenario 1, there is no consolidation and therefore, no savings over the 20 years. In Scenario 3, however, Chamberlin is closed and there is approximately \$380,000 saved in FTEs and utilities when the school is closed in 2020. The District's operating budget going forward would be reduced by that much each year thereafter.

Bond Structures: These scenarios would most likely be financed through municipal bonds. The model used the general structure of bonds provided by the Vermont Municipal Bond Bank, as this is typical for municipal debt. It is understood that the District would not likely bond each and every year, but rather would do so in larger increments after a City-wide vote. For the purposes of being conservative and consistent across the scenarios, the model used annual bonds with a variable interest rate over the term. *Note: It is understood that this approach (annually bonding and relying on future bonds for such critical decisions) is not what would actually occur and is a fundamental limitation of modeling, reinforcing that this is a tool for order of magnitude comparison, not an exact proforma.*

Oak Creek: In the Fall of 2015, the City of South Burlington offered to exchange the District's Marcotte property for the City-owned Oak Creek site, which could conceptually be the location of a new elementary school. During the Task Force process Dore & Whittier undertook conceptual planning and determined that "all scenarios [a K-4<sup>th</sup> grade or 3<sup>rd</sup>-5<sup>th</sup> grade school] [can be] accommodated at the site including playfields."<sup>5</sup> Based on this assessment, this

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<sup>3</sup> NEASC stands for New England Association of Schools and Colleges.

<sup>4</sup> FTEs stands for Full Time Equivalents, which is the metric used by the School District to calculate jobs within the school system.

<sup>5</sup> Emails were exchanged between White + Burke and Dore & Whittier to verify these estimates. Appendix B.

property was used as the placeholder in the analysis for a possible new school location. The City commissioned an appraisal of the Oak Creek land.<sup>6</sup> For this analysis, the appraised value was used for the purchase price in scenarios where new land is needed.

Sale Price for District Properties: White + Burke prepared a broker's opinion of value for Chamberlin, Marcotte, and Orchard schools to be used in Scenarios 3-5, where one or more of these District properties is proposed to be sold. To do this, White + Burke's Director of Brokerage Services, Tim Burke, reviewed the property appraisals commissioned by the City, evaluated the current and proposed zoning, determined highest and best use, and surveyed comparable housing and commercial property sales data. This resulted in a price range that would be dependent on ultimate zoning at the time of sale (for example, sale price for multi-family housing would be very different from the current educational/school zoning at Chamberlin School).<sup>7</sup> To be conservative, the model used the lower end of the price range, factored in demolition cost of the existing structures (assuming the buyer would not reuse the buildings), and accounted for transactional negotiation. For the purposes of this analysis "highest and best use" is the use that brings the highest sales value and does not take into account other community benefits or community uses which the City may choose to adopt for non-economic reasons, such as a community center.

State Debt Payback: Legislation passed in 2016 forgives any State debt for properties sold by a District before July 1, 2020.<sup>8</sup> In the event that a District property is sold after July 1, 2020, the District is obligated to repay the State Agency of Education for the outstanding construction loan debt on the property. Depending on the final sale price, state repayment would be 30% of the sale price up to the full repayment amount whichever is less. The total debt repayment figures used in the financial model came from the Agency of Education.

Tax Rate: The District provided the school tax rate for FY16. The amount of revenue generated by \$0.01 on the tax rate is known for FY16 (\$220,000), but will vary as the Grand List grows. (Future tax rates and the Grand List growth rate are variables – see below).

### *Variables*

The following variables are based on reasonable judgment calls made by the team. These can be modified within the model as needed.

Stewardship Costs Y11-20: Stewardship costs after ten years are too speculative to estimate with any accuracy. For Y11-20, a CPI factor<sup>9</sup> of 1.9% was applied to the Y10 estimates. The CPI is a variable and can be modified in the model, if better information is obtained.

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<sup>6</sup> For a full evaluation of the City's appraisal and outstanding items before determining a purchase price, please see White + Burke's memo re: "South Burlington — Oak Creek Appraisal," dated March 20, 2016. Appendix C.

<sup>7</sup> For the complete description of the broker's opinion of value, please see White + Burke's memo re: "SBSD -- Elementary School Property Valuations," dated January 13, 2016. Appendix D.

<sup>8</sup> The legislation does not define the timing of when a property is "sold." For the purposes of this analysis, we assumed that the "sale" occurs when the funds are transferred from the buyer to the District.

<sup>9</sup> CPI stands for Consumer Price Index and is a commonly used measure applied to inflation projections.

Stewardship Adjustments: Based on individual scenarios, amounts of stewardship will vary. For example, if a property will be sold, only 25% of needed stewardship will be done at that school until it is no longer owned by the District. For schools being upgraded to accommodate new students, it is reasonable to assume that less stewardship will be needed in the following years because some contemplated stewardship will be done within those upgrades. In this case, the model reduces the stewardship estimate by 15%. For example, if a school will be upgraded in 2020, then 100% of stewardship will be needed until 2020. After it is upgraded, it is assumed that only 85% of stewardship will be needed because improvements have been made as part of the upgrade costs.

Bond Terms: Although the Municipal Bond Bank structure is known, the terms will inevitably vary depending on the financial market at the time of sale of the bonds. The Excel model allows the length of bond and payments per year to be adjusted when there is more certainty about the actual terms for each bond. For the purposes of this analysis, a current standard schedule of interest rates was used, per an estimate from the VT Municipal Bond Bank.

Timing of Sales & Reconfigurations: In the scenarios where a school is being sold, the timing of the sale and when the subsequent accommodations and new construction are unknowable. Also, the timing is dependent on the phasing of construction. Typically, the money will not be transferred until the fee title to the property is transferred to the buyer. Moreover, the schools may need to remain in operation after an agreement is reached with a buyer while facilities are being upgraded or constructed for those students. Therefore, for the purposes of this analysis, reasonable assumptions were made, but can be modified as more information is known about any specific sale.

Tax Rate Growth: The tax rate growth for future years is based on an historical average. The revenue generated by \$0.01 on the tax rate will change each year depending on many parameters, including Grand List growth and the state tax rate.

Net Present Value (NPV) Discount Rate: In calculating the NPV of each scenario, a common discount rate was applied and can be modified, if needed.

## **V. Exclusions**

This analysis has a number of exclusions.

- **Transportation:** The transportation implications as a result of the reconfiguration of elementary schools would require additional studies and are not part of this scope.
- **Enrollment sensitivities:** During the Task Force process, the student enrollment projections commissioned by the District were factored into the cost estimates for accommodations, upgrades, and new construction. The impact of changes to enrollment projections is outside of the scope of this analysis.

- Environmental impacts: The environmental impacts as a result of the reconfiguration of elementary schools (such as asbestos removal or wetland impacts of new construction) would require additional studies and were not a part of this scope.
- Scenario 4 Alternate (Scenario 4B): A variation of Scenario 4 was discussed by the team and by the public. In this Scenario 4B, the two elementary schools (Orchard and a new school) would both include grades K-4<sup>th</sup> and the 5<sup>th</sup> grade would move to the middle school. Because this was raised late in the process, extensive analysis was not conducted. However, a quick assessment showed that the costs of this alternative would be slightly less than the original Scenario 4 and still more than Scenario 3.
- UVM Arena: The concept of constructing an arena for UVM at the Marcotte property was raised late in this process and is not included in the scope of this analysis.
- Neighborhood values: The impact of the reconfiguration of elementary schools on neighborhood and home values is not a part of the scope of this analysis.
- Pre-K: It is unknown how many pre-kindergarten classrooms will be needed in the future, given the legislative changes being discussed. For the purposes of an apples-to-apples comparison, no pre-K classrooms were included in the cost estimates with the understanding that when more information is known, that cost estimate will be applied to all scenarios. This analysis looks at the order of magnitude in comparing scenarios and thus, the pre-K costs are expected to be relatively insignificant.

## **VI. Outputs — Individual Scenarios & Comparison**

Once all inputs were entered into the model, each scenario had a variety of metrics for evaluation.

### *Individual Scenarios*

Within each scenario, the tax impact is calculated over all twenty years. Based on the inputs, the cost to taxpayers to cover the debt during the twenty-year period for each scenario's costs is generated using the tax rate factors and variables.

One of the metrics used to illustrate the tax implications examines the impact on three different value properties: a \$100,000 property, an average condominium (of \$226,000), and an average house (\$366,000). (This is the same metric used by the District in illustrating the annual operating budget to the public before the annual City-wide vote.) Within each of these property values, the taxes are divided out – total taxes due based on background growth (what would be paid regardless of any District changes of any of the scenarios being analyzed) and the taxes due based on the District changes (specifically to cover the debt service of the improvements over the twenty-year period).

Additional metrics are shown including: the average annual tax rate increase for both background growth and debt service, the average annual tax rate percentage increase, and the largest annual tax rate increase within the twenty years.

To show how this would impact a taxpayer in a more long-term and apples-to-apples way, the model shows how much a taxpayer's taxes would increase for each property type over five and ten years, cumulatively. And this is broken out by background growth and solely for debt service. This shows how much of a taxpayer's cumulative taxes over a longer term is due to the District changes. Because some of the scenarios propose improvements in later years, the ten-year scale is important for comparison.

The Net Present Value (NPV) calculates the cost to taxpayers over the whole twenty years at a discount rate to show the total cost to taxpayers in today's dollars. This is also helpful in comparing scenarios.

### *Comparison*

The outputs calculated on the individual scenario tabs are then synthesized on the "Outputs" tab to show all five scenarios comparatively. These metrics include:

- Gross total cost of stewardship, upgrades, and new construction
- Gross total investments, total sale revenue, and total operational savings
- Net Present Value of total investments, total sale revenue, and total operational savings
- Gross debt service over 20 years
- Net Present Value of the debt service over 20 years
- Average annual tax rate increase for both background growth and debt service
- Average annual tax rate percentage increase
- Largest annual tax rate increase within the twenty years
- Five year (2018-2022) cumulative tax impact for a condo (average value of \$226,000)
- Ten year (2018-2027) cumulative tax impact for a condo (average value of \$226,000)
- Five year (2018-2022) cumulative tax impact for a house (average value of \$366,000)
- Ten year (2018-2027) cumulative tax impact for a house (average value of \$366,000)
- Average cost per pupil for each scenario
- Ballot amounts every four years to cover bonding for the following four years
- Gross costs (stewardship and capital costs) by school
- Taxes for a condo and a house in Year 10, Year 15, and Year 20

## **VII. The Complexity of Communication**

The major question asked in this analysis was: "How much will one scenario cost compared to another scenario?"

This analysis addresses that question, but there are two levels of complexity that can easily lead to confusion with the answers.

- 1) Making an apples-to-apples comparison

## 2) Accurately identifying the output metrics

In making the comparison between scenarios, there are factors and variables that remain constant. However, there are also inherent differences between them that need to be considered when assessing the implications. For example, the timing of construction changes between scenarios, which impacts the debt service and construction costs due to inflation.

The other area for potential confusion is the variety of metrics that allow for analysis from different perspectives. Cost can be solely the cost of stewardship and construction for accommodations, upgrades, and new schools. Or cost could be seen as impact to the taxpayer: total debt service to be repaid over the twenty-year window. Or cost could be seen as the individual impact to a taxpayer of a certain property value in a given year. Which metric is to be used is completely dependent on the intended perspective. But ultimately, it is most important to use a consistent metric across all five scenarios to compare the financial implications among them.

Note: It is also important when using a model to remember that models are inherently limited. Judgment calls have to be made given the speculative nature of some information, such as future inflation rates, interest rates, or construction costs. In this particular analysis, estimates were used to understand the range of options on an order of magnitude, with the understanding that further analysis would be needed once a direction was decided.

## VIII. Risks

Each of the five scenarios has some risk in execution. As each scenario adds more elements, the risk increases by some degree. Note that any risk inherent in maintaining, upgrading, or reconfiguring as it relates to the delivery of education is outside the scope of White + Burke's work and is up to the District and the Board to assess.

Scenario 1 has the least financial and real estate feasibility risk. Maintaining the existing buildings and doing deferred maintenance will require bonding over and above the regular operating budget. The risk is that this is subject to voter approval year over year. There is also great risk that more significant improvements are just being delayed and could result in an even higher cost later.

Scenario 2 requires substantial bonding to make upgrades at all five schools. Again, there is risk in relying on later bonding. The additional complication with Scenario 2 is timing the upgrades and determining the logistics to concurrently do construction while educating students on-site.

Scenario 3 adds some risk to timing and feasibility because of the sale of Chamberlin property. Reliance on voter-approved bonding for stewardship and upgrades then also becomes compounded by the variability in timing of the property sale, the construction duration, and the reconfiguration. Dealing with a buyer adds uncertainty of process, timing, sales revenue, and any number of complications that can occur during the buyer's due diligence phase.

Scenario 4 proposes to sell two District properties, thereby adding more risk (similar to that described in Scenario 3). This Scenario also proposes to construct a second, new elementary school, which has many unknown factors involved, especially at this stage; these unknown factors create risks for timing and feasibility. A phased approach would need to be taken in determining all the ramifications of this project: evaluating, designing and constructing the new facility, sequencing the construction and reconfiguration process, and executing two sales, while upgrading the other District properties.

Scenario 5 has less complication than Scenario 4. This scenario proposes to sell three District properties and construct a new consolidated elementary school. Because there is no renovation of existing elementary schools while students are occupying them, there are clearer logistics in this approach. The middle school will need to be renovated to make accommodations for the 5<sup>th</sup> grade and upgrades to the middle and high schools will be done in this scenario, but this is true for Scenarios 2-4 as well. The riskiest aspects of this scenario are finding buyers for all three elementary school properties and ensuring design for the new school keeps construction costs within this budget.

To understand the true risk-reward ratio of these projects, further analysis would need to be undertaken to estimate time and cost for management of each scenario.

## **IX. Range of Findings**

Of the outputs listed above, two metrics are most helpful in understand the cost of each scenario and the impact on a taxpayer.

### *Cost*

Scenario 1 consists only of stewardship to the existing schools, with no reconfiguration, upgrades, or new construction. This Scenario would cost \$23 million.<sup>10</sup>

In constructing the scenarios and the inputs for this analysis, the team initially wanted to understand what it would cost in Scenarios 2-5 (where upgrades are made to existing structures) to do Basic upgrades (not 21<sup>st</sup> Century upgrades) to all existing facilities (for the purposes of affordability). Note: the new schools in Scenarios 4 & 5 will inherently be built to the 21<sup>st</sup> Century level.

So to look at all Scenarios in an apples-to-apples way, one must look at the costs to upgrade all schools to 21<sup>st</sup> Century level and then look at the alternatives.

If all existing schools were to be upgraded to the 21<sup>st</sup> Century level, Scenario 2 is the most expensive, with the consolidated new elementary school configuration (Scenario 5) as second least expensive after Scenario 1 (stewardship only). The range of costs for all Scenarios at this

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<sup>10</sup> The cost includes stewardship, upgrade and accommodation costs, and the construction costs of new schools. These figures do not include sales proceeds from sold properties, the operational savings that could occur when schools are closed, or the cost of financing.

level is as follows:

- **Scenario 2: \$216 million** (upgrade all five existing schools to 21<sup>st</sup> Century)
- **Scenario 3: \$195 million** (upgrade HS, MS, Orchard & Marcotte to 21<sup>st</sup> Century; close Chamberlin)
- **Scenario 4: \$200 million** (upgrade HS, MS & Orchard to 21<sup>st</sup> Century; close Chamberlin & Marcotte; construct a new 21<sup>st</sup> Century 3-5<sup>th</sup> grade school)
- **Scenario 5: \$186 million** (upgrade HS & MS to 21<sup>st</sup> Century; close all elementary schools; construct one new 21<sup>st</sup> Century K-4<sup>th</sup> grade school)

If only the new school in Scenarios 4 and 5 were built to 21<sup>st</sup> Century level and the rest were upgraded to Basic level (given the scenario), Scenario 5 is the most expensive. The range of costs for all Scenarios at this level is as follows:

- **Scenario 2: \$58 million** (upgrading all five existing schools to Basic)
- **Scenario 3: \$59 million** (upgrade HS, MS, Orchard & Marcotte to Basic; close Chamberlin)
- **Scenario 4: \$85 million** (upgrade HS, MS, Orchard to Basic; close Chamberlin & Marcotte; construct a new 21<sup>st</sup> Century 3-5<sup>th</sup> grade school)
- **Scenario 5: \$89 million** (upgrade HS & MS to Basic; close all elementary schools; construct one new 21<sup>st</sup> Century K-4<sup>th</sup> grade school)

*Isolating Reconfiguration of Elementary Schools from Middle & High School Upgrades*

Something to consider in these results is that the middle and high school upgrades are a substantial portion of the Scenarios 2-5 cost. If the District and voters decided to parse out the middle and high school upgrades from the stewardship and reconfiguration of the elementary schools, the cost would be substantially different.

The middle school upgrades would cost \$9 million at the Basic level and \$45 million at the 21<sup>st</sup> Century level. The high school upgrades would cost approximately \$19.5 million at the Basic level and \$72 million at the 21<sup>st</sup> Century level.

So to isolate just the costs of the stewardship and reconfigurations at the elementary schools (while still doing stewardship for the middle and high schools), the costs for each scenario are as follows:

	Basic	21st Century
Scenario 1	\$23 million	\$23 million
Scenario 2	\$28 million	\$92 million
Scenario 3	\$25 million	\$59 million
Scenario 4	\$52 million	\$69 million
Scenario 5	\$56 million	\$56 million

Accordingly, it is clear in Scenarios 2-5 that the upgrades to the middle and high schools are a big component of the overall gross cost of the scenario. This has been isolated within the financial analysis for the purposes of the District, Board, and voter discussion.

*Translating to Taxpayer Impact*

The gross numbers can be difficult to digest, so the metric for taxpayers that may be more useful is tax impact in ten years (2025). This means that over and beyond the taxes they pay today, the model projects how much more a taxpayer will be paying in ten years. The model also isolates the portion of the increase that pays for debt service due to the District investments versus the background growth that will inherently increase taxes over time.

For the average house owner (with property value of approximately \$366,000), their 2016 taxes are \$7,614. In ten years, their 2025 taxes are projected to be \$9,127 if no action is taken (no stewardship, accommodations, upgrades, or new construction). That is \$1,513 more in that year than is being paid today – regardless if any action is taken (background growth only).

For each scenario, the following additional amounts would be added to their 2025 tax bills solely to pay for the debt service for the investments to the school district:

	Basic	21st Century
Scenario 1	\$66	\$66
Scenario 2	\$387	\$1,451
Scenario 3	\$121	\$823
Scenario 4	\$349	\$1,080
Scenario 5	\$481	\$1,160

Therefore, the average house owner is projected to have the following total tax bill in 2025, depending on the scenario:

Basic

	2016 Taxes	Background Growth	Cost of Scenario Debt Service	Projected Total Taxes in 2025	% of Total Taxes due to Scenario Debt Service
Scenario 1	\$7,614	\$1,513	\$66	\$9,193	1%
Scenario 2	\$7,614	\$1,513	\$387	\$9,514	4%
Scenario 3	\$7,614	\$1,513	\$121	\$9,248	1%
Scenario 4	\$7,614	\$1,513	\$349	\$9,476	4%
Scenario 5	\$7,614	\$1,513	\$481	\$9,608	5%

\*Current + Background Growth + Cost of Scenario = Projected Total Tax in 2025

21<sup>st</sup> Century

	2016 Taxes	Background Growth	Cost of Scenario Debt Service	Projected Total Taxes in 2025	% of Total Taxes due to Scenario Debt Service
Scenario 1	\$7,614	\$1,513	\$66	\$9,193	1%
Scenario 2	\$7,614	\$1,513	\$1,451	\$10,578	14%
Scenario 3	\$7,614	\$1,513	\$823	\$9,950	8%
Scenario 4	\$7,614	\$1,513	\$1,080	\$10,207	11%
Scenario 5	\$7,614	\$1,513	\$1,160	\$10,287	11%

\*Current + Background Growth + Cost of Scenario = Projected Total Tax in 2025

*Analysis Observations*

Many observations could be made about the various metrics calculated in this comparative analysis.

For example, background growth is a significant portion of total taxes in 2025, especially compared to the taxes due to debt service in the Basic Scenarios.

Also, the projected taxes for each scenario in 2025 are dramatically impacted by the timing within each Scenario. This needs to be taken into consideration with the total cost of each scenario. For example, when upgrades are done at 21<sup>st</sup> Century level, Scenario 5 has the second least expensive overall cost (after Scenario 1). However, the tax impact in Year 10 (2025) is the second highest (after Scenario 2). This is because of the timing of when debt is incurred.

Another observation is the tax rate differential between scenarios when considering them as alternatives. For example, it will cost a house owner \$94 more annually for a consolidated 21<sup>st</sup> Century elementary school than to upgrade all existing schools to the Basic level. And will cost a house owner \$291 less annually for a consolidated 21<sup>st</sup> Century elementary school than to upgrade all existing schools to the 21<sup>st</sup> Century level.

**X. Conclusion & Next Steps**

This analysis was solely addressing the financial implications of these possible scenarios. This analysis did not address the educational impact of the scenarios. White + Burke is not making any recommendations; rather, this comparative analysis provides an objective review of the financial implications that the administration, School Board, and public can use in future decision-making. Some conclusions from the findings above include:

- 1) Upgrading existing facilities to the 21<sup>st</sup> Century level adds significantly more cost to any scenario than upgrading to the Basic level. The cost to upgrade one or more existing schools results in much higher costs than new construction.
- 2) Upgrades to the middle and high school are significant portions of the overall scenario costs.

- 3) Background growth in tax rates is significant. In looking at the cost of the Scenarios with Basic upgrades, the tax impact of the debt service is relatively minor compared to the background growth.
- 4) Scenario 1 is the least expensive option in any case because only deferred maintenance is being addressed. This comes with other implications given the lifespan of these buildings and the standards for education, but those implications are outside the scope of this financial analysis.

The inputs in this model are based on research, educated estimates, and reasonable assumptions with the available data. As the District, Board, and voters make decisions about proceeding, further research should be conducted to get more specificity and updating of estimates, clarify the variables, and create a system of checkpoints for confirmation of these numbers along the way.

**XI. Appendices – All appendices are confidential to the School Board, as they contain information where premature general public knowledge would clearly place the Board at a substantial disadvantage.**

Appendix A — “Scenario Cost Comparisons” spreadsheet, dated 1 July 2016, from Frank Locker Educational Planning with Dore & Whittier Architects.

Appendix B — Email correspondence between White + Burke and Dore & Whittier Architects, 2015.

Appendix C — Memo re: “South Burlington — Oak Creek Appraisal,” from White + Burke, dated March 20, 2016.

Appendix D — Memo re: “SBSD -- Elementary School Property Valuations,” from White + Burke, dated January 13, 2016.

Appendix E — Financial Model (Excel file), with “SBSD Financial Analysis Model Notes,” dated Summer 2016 by White + Burke Real Estate Investment Advisors, Inc.