



To: The Hinesburg Selectboard  
 Cc: Michael Anthony, Highway Foreman  
 Renae Marshall  
 From: Trevor M. Lashua, Town Administrator  
 Date: February 10, 2017  
 Re: Highway Garage FAQs (updated; includes 01/09/17 construction budget revision and 02/10/17 Bond Bank estimated debt service schedule)

*Q: What is proposed and what will it cost?*

A: Replacement of the existing, antiquated, functionally-challenged highway garage with an 11,500 square foot replacement on Town-owned property on Beecher Hill Road (where the garage is currently located). The project includes a fabric-domed salt and sand shed capable of storing nearly a season’s supply of material. The total project cost, updated on 01/09/17, is an estimated \$3.1 million. The estimate includes construction, permitting, site work, architectural and engineering fees, and a variety of other “soft” costs.

Here’s a breakdown:

- Construction (includes site work, general conditions, mechanical, electrical, estimating contingency, general contractor mark-up, performance bond, etc.): \$2,618,068
- Permitting (state and local): \$38,200
- Architectural and engineering (includes misc. reimbursement): \$231,500
- Equipment and appliances: \$37,000
- Survey: \$4,500
- Project contingency (6%): \$175,726
- TOTAL: \$3,104,494

*Q: How is the Town proposing to finance the project?*

A: With a 30-year general obligation bond through the Vermont Municipal Bond Bank, with an interest rate of 3.523% per year. Projecting interest rates is difficult given national and international uncertainty in the bond market. The Federal Reserve approved the first rate increase in a decade in December, with three “modest” rate increases scheduled for 2017.

*Q: What would the average annual payment be, and what would that cost residential property taxpayers?*

A: Based on a debt service schedule provided by the Bond Bank, the average annual payment is an estimated \$158,418. An earlier version of the analysis, using an interest rate from the Bond Bank and a generalized amortization schedule, had the average annual payment at \$180,975. The “high” payment, using the more accurate schedule from the Bond Bank is \$201,078 and the “low” payment is \$105,307. Principal payments would remain the same each year throughout the 30-year note’s life (\$103,333). Assuming that the grand list grows at its recent annual average (1.1%) for FY18, here is what the impact would be on residential property taxpayers based on the 2.96 cent increase in the municipal portion of the property tax rate required:

*Residential taxpayer “impact”*

Assessed value	<u>\$200,000</u>	<u>\$300,000</u>	<u>\$400,000</u>
Average cost per year	\$59.20	\$88.80	\$118.40
Average cost per month	\$4.93	\$7.40	\$9.87

*Q: Is there any other way property tax revenue can or is projected to increase, other than growth in the grand list?*

A: The Addison Natural Gas Pipeline will generate annual property tax revenue once installed and operational. During discussions on the stipulated agreement and easement deed, the total estimated tax payment to be made by Vermont Gas

was estimated at \$465,000 (January 2016). The majority of that payment pays the school portion of the tax rate (75% of the total rate). The town would see an estimated \$130,000 in municipal taxes (based on the adopted FY17 tax rate). The taxes paid will vary with the tax rate (an increase in the rate for FY18 would increase the revenue received from the pipeline). With an average annual payment of \$158,418, the pipeline revenue could generate nearly 82% of the debt service payment – leaving \$28,418 to be raised in an average year.

*Residential taxpayer “impact” after applying pipeline property tax revenue (to raise remaining \$50,975)*

Assessed value	\$200,000	\$300,000	\$400,000
Average cost per year	\$10	\$15	\$20
Average cost per month	\$0.83	\$1.25	\$1.67

This revenue source carries some uncertainty with it. The pipeline, if no improvements, maintenance, or upgrades were made, would depreciate in value during the course of its lifecycle. Obsolescence (where the pipeline is taken out of service prior to the expiration of its 40 to 50 year expected life) is another variable to consider.

There is also no mechanism to dedicate the revenue – the choice to do so would be supported through continued decision-making in the budgeting and expenditure processes.

*Q: What would grand list growth, beyond the 1.1% per year average used in budgeting, generate?*

A: Using the current (FY17) grand list as a baseline, the list below shows what grand list growth at 1.5%, 2.0%, and 2.5%, would net. Since FY07, grand list growth only met or exceeded the 2.0% threshold once (2.73% in FY08); the next largest annual increase was 1.52% (FY09).

- 1.1% = +\$58,210
- 1.5% = +\$79,378
- 2.0% = +\$105,837
- 2.5% = +\$132,296

*Q: What effect does any inflation in construction costs have on the overall project cost?*

A: Using a 4% annual increase in construction costs is considered safe based on recent data (the period from 2013 through 2015), and is not far from the long-term annual average (3.5%, 1993 through today). Using the 4% inflationary metric, the building becomes \$378,078 more expensive (\$3,487,078) in three years if no other adjustments are made. Using a three year window matches what would likely to be the “quickest” time between identification of a new water source, allocation of water and wastewater capacity, permitting and any appeals, and the beginning of construction in the village core that could generate a level of sustained grand list growth. It is important to note that grand list growth cycles move with the larger economy, so a few years of sustained growth is a good outcome – and not a certain one even with the requisite infrastructure in place.

*Q: Can the safety and liability costs of the current facility be quantified?*

A: Not at this time. Further analysis can provide examples of what fines may be for the items identified in prior voluntary inspections.

*Q: Can the repair and maintenance costs be broken down on the current building to compare with a new one?*

A: Not easily. For decades Town personnel have performed most of the functions that might otherwise be outsourced. While using staff resources in place is preferable, it is not always possible, practicable, nor sustainable. That being said, it is known that the Town spent a total of \$9,731 in FY16 on what could be considered operations and maintenance costs. The costs are pulled from budget lines for repairs and maintenance, supplies, and utilities; there is no way to independently pull the staff hours used to complete the various tasks. The budget for FY17 called for \$13,500 in operations and maintenance costs. At 11,160 square feet, the new building will be more expensive to operate. What that cost is was not part of the earlier scoping study and would need to be commissioned separately at this time (the Town spent the \$9,000 in scoping funds, and likely received additional “free” service along the way).

*Q: Is there a long-term debt service schedule showing all outstanding bonds and the respective terms?*

A: This document is planned, but does not exist as of this writing.

*Q: Have alternative locations been considered?*

A: Not at this time. The Town already owns the land, which is home to the gravel pit.