

**Town of Easton**  
**Finance Committee**  
136 Elm Street  
North Easton, MA 02356

**MEMO**

**To:** Community Preservation Committee

**From:** Town of Easton Finance Committee

**cc:** Town Administrator, David Colton  
Board of Selectmen

**Date:** January 26, 2010

**Re: Ames Shovel Shop, Finance Committee Initial Concerns**

The Finance Committee has discussed in a couple of meetings the Ames Shovel Works proposed project by Beacon Properties, including a presentation by Beacon back in November. We also recently received the report of the town's financial consultant, GLC Development Resources, regarding the financial aspects of Beacon's proposal and the projected revenues and available funds for CPA financing options prepared by Town Accountant Wendy Nightingale.

The Finance Committee decided to summarize consensus points of concern we have thus far regarding this project, which are attached to this cover letter. We understand that a presentation of the Shovel Works proposal will be made to the Community Preservation Committee (CPC) on Thursday, January 28<sup>th</sup>. We wish to provide to the CPC these points of concern so that you are aware of our views based on what we have learned to date, and what we will be seeking to understand more/get answers to in the coming months should this proposal move forward. The Finance Committee has not at this time voted on any aspects of the Shovel Works proposal presented by Beacon, including the sources of financing.

Given the size and multi-pronged implications of the proposed sources of financing of this proposal, the Finance Committee will remain diligent in fully understanding all short and long term impacts on the Easton taxpayer, with an eye towards the reasonable likelihood of future events as well as potential worse case scenarios.

Please contact the Finance Committee Chairman if you have any questions regarding this memo.

Respectfully submitted,



Donna A. Lopolito, Finance Committee Chair  
On behalf of the Finance Committee

**Factors to Consider**  
**Areas of Concern to the Finance Committee**  
**As of January 25, 2010**

1. FinCom has not yet reviewed in committee the details of the GLC report, nor have we yet had the opportunity to discuss the report with George Cole, the Town Administrator, nor the Board of Selectmen. We expect Mr. Cole to be present at our February 10<sup>th</sup> meeting.
2. FinCom has not yet reviewed in committee the projected revenues and available funds for CPA financing options prepared by Town Accountant Wendy Nightingale. This analysis was first presented to the Board of Selectmen January 11<sup>th</sup>. We will likely discuss this analysis at our February 10<sup>th</sup> meeting.
3. We have significant concerns and open questions regarding debt being issued by the Town to support the CPA.
  - a. We question the legality of debt issuance from the CPA fund given certain sections of the State law. If debt issuance is a serious consideration (while holding significant CPA cash reserves) to fund the Shovel Works proposal (or any other proposal for that matter), FinCom believes that interpretation of State law is needed from the Attorney General.
  - b. The ability to pay long-term debt service from CPA funds appears questionable, due to
    - i. Most of the Town Accountant's debt service scenarios indicate that in many years cash outflow will exceed cash inflow, especially considering that 30% of inflows must be set-aside in specific reserve funds.
    - ii. This inability to service debt would be exacerbated in a rising interest rate environment, as well as in the likely ongoing environment we've already experienced of lower and lower State match. (We believe State match should not even be considered in assessing CPA fund ability to service debt or its future levels of reserves.)
    - iii. Any shortfall or inability whatsoever of the CPA fund to service debt would fall to the general town government. If general tax revenues were ever needed to cover CPA debt funding, that would take away from operating expenses, including safety and school departments.
  - c. Issuing debt from the CPA fund, especially for significant amounts and long-term financing, potentially takes away an inherent right of the taxpayer to eliminate the CPA tax in the future.
  - d. The Town's borrowing for non-core needs could negatively impact our debt rating, which would then result in higher borrowing costs and more burdens on the taxpayer.

4. Risk of loaning \$4.5 million to the developer – We believe that the debt structure of the proposal carries extremely high risk that would be unacceptable to any bank yet we are potentially asking Easton residents to accept this risk.
  - a. Risk of default and the true costs of this loan are serious considerations in assessing this proposal.
  - b. Source of repayment is the sale of assets, which are clearly not guaranteed let alone guaranteed for any minimum amount that is needed to assure the taxpayers we will be repaid.
    - i. Exacerbating the potential sale of assets is the worse national and local economic environment and real estate market seen in most people's lifetime. Assuming this market will significantly improve in 5 to 7 years is a deep concern when considering the risk to the Easton taxpayer of potentially losing \$4.5 million of their tax dollars.
  - c. Easton stands fourth in line in the repayment of the developer's debt, including behind first and second mortgages, as well as behind the developer's fees and profits.
  - d. The developer's ability to pay all their debt service is not only contingent upon the sale of condominiums at certain minimum prices, but also on their ability to profitably manage historical and affordable housing tax credits in this environment which is unlikely to change in the near term.
5. The current and future costs to Easton residents of the Shovel Shop proposal and its currently recommended funding are incredibly high and we are concerned that not all aspects of these costs are being sufficiently considered.
  - a. The overall \$9 million price tag of core costs, which does not include all true costs
  - b. Opportunity costs – we believe that many current and potential future projects that could be funded with CPA funds will not be able to be funded given the cost of this one project (lost opportunity for alternative uses of CPA funds).
    - i. This point is a higher concern without debt financing (see points above regarding debt financing concerns)
  - c. Holding the tax rate on the property for five years is an incremental cost
  - d. Potentially paying out 5% to carry debt, yet receiving only 3% on providing a loan to the developer, is a true cost.
  - e. As even stated in the GLC report, a 5% development contingency is the minimum of a project of this size. A more normal contingency is 10%. This risk/cost needs to be seriously considered.

6. We question the value of historic preservation of \$3 million and the method of calculation. Further input should be received, for example, from the Historic Preservation Committee and any similar projects in other towns.
  
7. Questions still exist regarding the structure of the \$1.5 million debt for the sewerage treatment plant, user fees to the development and the downtown business district, and debt servicing.

The above, as well as other, factors to consider/areas of concern to the Finance Committee are what we will be seeking to understand more/get answers to in the coming months should this proposal move forward. The Finance Committee has not at this time voted on any aspects of the Shovel Works proposal presented by Beacon, including the sources of financing.