

CITY OF WARWICK
FINANCE DEPARTMENT
3275 POST ROAD
WARWICK, RHODE ISLAND 02886
(401) 738-2015

To: Mayor Frank Picozzi
From: Peder Schaefer
Date: September 14, 2023
Subject: New High Schools – Fiscal Note

The following fiscal note identifies significant increased city debt service costs for the high school project approved in November of 2022 based principally on increased construction costs projected by Ellana and a better understanding by the finance director on capped construction costs and the treatment of paygo approved by the state. Higher interest rates were also a factor.

The city originally (in October of 22) projected annual debt service costs after project completion and reimbursements by the state of \$11.9 million annually. Factoring in adjusted interest rate assumptions, a better understanding of capped state approvals on project cost and pay go, the estimate on annual net city debt service costs is now \$13.4 million before considering the Ellana report. This assumes 20 year amortization at 4.32% (average over 2 tranches). There is the opportunity to go out as long as 30 years which would reduce annual costs. Also, the city just sold \$20 million of 20 year bonds at under 3.95%. It is possible that borrowing costs could be lower, although there is no indication that the Federal Reserve is through with interest rate increases.

The Ellana report projects additional construction costs of \$22.1 million (after making a technical adjustment for demolition costs). These costs exceed state approval so there would be no state reimbursement.

In conclusion, assuming the accuracy of the Ellana report and an inability to achieve savings from value engineering or other cost reductions, annual net debt service would be projected at \$16.4 million with the assumptions referenced above including the possibility of longer amortization to reduce annual costs. \$16.4 million equals 7% of the current year approved tax levy of \$233.9 million. Total state reimbursement of debt service costs is now limited to 38.8% because of increased project costs and the limits on total state reimbursement. That figure is 43.8% excluding the Ellana projected cost increases.

It should be noted that project authorization for total debt is limited to \$350 million. Additional voter authorization for the \$22.1 million increased construction cost would be required to proceed on issuing the total debt for these projects if the Ellana projections apply and other cost savings were not achieved.

The table on the following page summarizes the results.

Pilgrim and Toll Gate Replacement	In Millions \$ State Approved	In Millions \$ Not State Approved	Total	Ellana Additional	With Additional
Project Cost	\$314.60	\$35.40	\$350.00	\$22.10	\$372.10
Pay Go	\$23.40		\$23.40		\$23.40
Net Debt	\$291.20	\$35.40	\$326.60	\$22.10	\$348.70
State Reimbursement @ 52.5%	\$152.88	\$0.00	\$152.88	\$0.00	\$0.00
City of Warwick Debt	\$138.32	\$35.40	\$173.72	\$22.10	\$195.82
Total Annual Debt Service - 20 Years	\$18.95	\$4.85	\$23.80	\$3.03	\$26.83
State Reimbursement	\$10.42	\$0.00	\$10.42	\$0.00	\$10.42
City of Warwick Net Debt Service	\$8.53	\$4.85	\$13.38	\$3.03	\$16.41
State Reimbursement %			43.8%		38.8%
City of Warwick Property Tax Levy			\$233.90		\$233.90
New Debt Service as a % of Tax Levy			5.72%		7.01%