Report on Warrant Article 5 – Authorizing the Select Board to Sell 15-19 Oak Street

The Schools and Capital Subcommittees of the Advisory Committee held a joint public hearing on Warrant Article 5 on Tuesday, October 2nd, beginning at 6 pm in Room 111 of Town Hall.

In attendance from the Schools Subcommittee were Dennis Doughty, John VanScoyoc, David Lescohier, Mariah Nobrega, and Cliff Brown (chair), and from the Capital Subcommittee John Doggett, Pam Lodish, Amy Hummel, Harry Friedman and Carla Benka (chair). Also attending were School Committee member Helen Charlpuski; Acting Superintendent Ben Lummis; Deputy Superintendent for Administration and Finance Mary Ellen Normen; Article 4 petitioner and Town Meeting Member, Pct. 10, C. Scott Ananian; and Deputy Town Administrator Melissa Goff.

Background
Article 5 would authorize the Select Board to sell three residential condominiums at 15-19 Oak Street that were purchased in anticipation of a successful debt exclusion vote for the previously proposed Baldwin School project. The properties were acquired after Town Meeting authorized their purchase in December of 2018 and in advance of the debt exclusion vote. The transaction was completed in early 2019 and the cost of debt service for the acquisition was incorporated into the debt exclusion referendum which was rejected by Brookline voters at the Annual Town Election on May 7, 2019. The acquisition of the properties was achieved via the issuance of Bond Anticipation Notes (BANs). With the failure of the debt exclusion referendum and no plans to pursue the Baldwin School further, the original rationale for their acquisition no longer exists. At the time of the filing of the Article, the School Committee had proposed using the Oak Street condominiums as office space beginning in the fall of 2020 as part of their overall space planning. For a variety of reasons, including renovation expense and a number of zoning and building code requirements to convert the Oak Street residential properties into office use, the School Committee is no longer proposing the office idea. Currently, the Town is exploring a possible ninth school on Fisher Hill, the acquisition of which (or any other future school development project) may benefit from having the ability to sell the properties expeditiously. The approval of the Article by Town Meeting does not compel the Select Board to sell the properties. An affirmative vote would merely provide the Select Board with the authority to take such action (and indeed, the Select Board filed an identical article for consideration at this Town Meeting). Any sale would require a public process. The Select Board would also determine the timing of such a sale, if one occurs.

Discussion
The subcommittees agreed about the value of authorizing the sale but had a long conversation about the nuances of when to sell. Several key points were covered during the subcommittees’ discussions.
The first principal point of discussion was when to hold versus sell, which in parts hinges upon whether or not holding could be cost-neutral. As referenced in the Article explanation, the assumed long-term cost of amortizing the debt at an interest rate of 5.0% (the Town’s standard estimated rate) is $337,477 per year. However, recently the Town has been paying lower rates (~3.0%), which would result in payments of ~$267K per year. Further, the property is currently financed on the BANs, which are an interest-only basis of ~3.0% resulting in a current payment of ~$147,000 per annum (note that BANs must begin to pay principal during the third year, resulting in a payment closer to the ~$267K.) These different amounts matter as the they would require substantially different rents to be paid to cover the carrying costs. To cover ~$337K each year would require rents in excess of $9K per month per unit, to cover $267K would require rents in excess of $7K per month per unit; these are nowhere near the more typical market rates for comparable units ($3.5-5K/month). However, the cost to cover the interest-only BANs is approximately $4K per month per unit, which does fall within the current market range. The net cost to the Town, today, is ~$50,000 per year, which reflects the difference between the rental income the Town receives ($2500 per month per unit through December 31, 2019 when the current lease ends, $90K total annualized) and the cost of carrying the properties under the interest-only BANs, stated above.

Some members of the committees argued that the properties should be sold immediately and that the funds should be directed to other purposes. It was pointed out that no funds were used to buy the properties and hence there would be no proceeds to reinvest unless the Town sold at a price above the purchase price and that the Town could actually have a capital outflow if the properties were sold below what was paid for them.

It was pointed out that although when the debt begins to amortize, the Town would be paying a lot more than could be charged in rent, that as the loan is amortized, the Town builds equity just like a homeowner does when they pay off a mortgage. Assuming the Town ultimately sold the property for at least what it paid, the Town would be able to recoup the amortization payments and, if the properties were sold for more than what the Town paid, the Town would generate excess proceeds (profit). When those net proceeds are compared to the outgoing cash flows, the Town might end up in a financial position no worse than the current situation and perhaps better. It was also mentioned that if the properties were purchased at true fair market value, then the Town could anticipate appreciation in the properties, increasing the likelihood that the purchase would not have any negative net financial impact on the Town.

The petitioner discussed their view that if the properties could be rented out at a rate that covers the monthly carrying costs (plus any maintenance, utilities, etc) for at least the period of the interest-only BANs, such that the net carrying cost to the Town would be neutral or near-neutral per annum, there may be a rationale to maintaining ownership for a period of time, especially if the properties may appreciate in the interim. There remains uncertainty regarding market rents for the properties and how difficult it would be for the Town to find tenants, particularly tenants who are willing to bear the disruption that will occur when the Town determines to either use the properties for its own account or to sell them. Removing the properties from the tax rolls will not impact revenue to the Town but it will cause the tax the properties would otherwise have contributed to be spread to other taxpayers.


**Example scenario:** Estimated market rent is $3,500 per month, per unit. Breakeven rent assuming 3% interest-only debt is approximately $4,100 per unit, per month. Breakeven rent assuming 3% interest and 25-year amortization schedule is approximately $7,800 per unit, per month. If the property were held for two years, rented below market at $3,000 per unit, per month and then sold, the net sale price would need to be approximately $80,000 more than what the Town paid for the Town to breakeven. If the property were held for five years, rented below market at $3,000 per unit, per month and then sold, the sale price would need to be approximately $200,000 higher than what the Town paid in order for the Town to break-even. The annual appreciation rate for the Town to break-even is less than 0.9% in both scenarios. The required appreciation rate would vary depending on the interest rate incurred by the Town and the rent received by the Town.

Even with the carrying costs completely offset at least while the interest-only BANs are held, the minimum impact to the Town is that the net carrying cost forces other scheduled projects in the CIP to be delayed. Because it is unclear whether the amount of the rental income could immediately be used to offset the debt service as the rent is placed into a separate account to offset costs of owning the property, there could be an additional delay until the funds in the separate account are moved to free cash.

Helen Charlupski, Chair of the School Committee's Capital Subcommittee, stated the view that the Town should maintain ownership of the properties until such time as there is a clear resolution on the school facilities challenges. Ms. Charlupski offered that there may still be considerations for the existing Baldwin School such as a Brookline Early Education Program hub. She also opined that the properties might be valuable to a developer if the Town decided to sell Baldwin for redevelopment. Indeed, the subcommittees agreed that by retaining ownership for at least the near-term the Town does provide itself with maximum flexibility if, for any reason, it is determined that there are viable options for expanding the footprint of the existing Baldwin School or it is determined that the existing Baldwin School fills a need that requires the space or land provided by the buildings or grounds of the Oak Street Properties. The petitioner pointed out that by approving the warrant article, Town Meeting would enable maximum flexibility for the Town to respond to capital projects at Baldwin, Newbury or any other location.

**Recommendation**
The subcommittees unanimously recommend favorable action on Warrant Article 5.