

Overview

In compliance with Section 6-3, 6-4, and Section 606 (a-e) of the Town Charter the Town Administrator respectfully submits the following Fiscal Year 2012 capital budget. This document contains recommended projects for funding in FY 2012. As part of the comprehensive retooling of the capital planning process, a five-year rolling capital plan (including all Community Preservation Committee (CPC) projects) will be developed over the next several months and new database established using previously compiled information by the Capital Planning Committee. Ideally, the two processes should happen simultaneously; however with the changes in the plan this year, a fully realized five year rolling capital is still being compiled. This year's recommendation will hopefully set forth the foundation for, and a framework within, a commitment to a coordinated multi-year capital asset investment program. This year's plan also has been developed in a manner that lends itself to being useful as a budget and planning tool as well as a more workable document for town officials.

When completed with the five year projections, the plan will serve as a forward looking document designed to inform the community in the broadest possible ways of the potential needs and demands the Town is facing.

Capital Improvement Program

A capital improvement program (CIP) is a multi-year fiscal planning document that identifies long-term improvements to the Town's infrastructure and facilities and provides a program for prioritizing, scheduling and funding. It is comprised of two parts: a capital budget, which is the upcoming fiscal year's plan, and a capital program, which is a window into the overall capital needs of the community. This is not a static process. The CIP is based on the best available information at the time of development with some projects requiring additional price and scope information. However, information about projects in outer years does change and may require a change in direction.

The process provides the opportunity to plan for major expenditures in the future while evaluating new and current projects based on up to date data. The CIP is a composite of the Town's capital needs, tempered by current and future financial capability.

What constitutes a Capital Improvement Project?

A capital improvement is a major, non-routine expenditure for new construction, major equipment purchase, or improvements to existing buildings, facilities, land or infrastructure, with an estimated useful life of five (5) years or more, and a cost of \$25,000 or more.

Among the items properly classified as capital improvements are:

- New public buildings, or addition to existing buildings, including land acquisition costs and equipment needs to furnish the new building or addition for the first time;
- Major alterations, renovation, or improvements to existing buildings which extend the useful life of the existing buildings by five years;
- Land acquisition and/or improvement, unrelated to a public building, but necessary for conservation or parks and recreation purposes;
- Major equipment acquisition, replacement or refurbishment, with a cost of at least \$25,000, and a useful life of at least five (5) years, including computer and technology equipment;
- New construction or major improvements to the Town's physical infrastructure, including streets, sidewalks, storm water drains, the water distribution system, and the sanity sewer system, which extends the useful life of the infrastructure by at least ten (10) years and
- A feasibility study or engineering design service which is related to a future capital improvement.

Necessity of Viable Capital Improvement Plan

- Facilities coordination between capital needs and the operating budgets;
- Enhances the community's credit rating through improved fiscal planning and avoids sudden changes in its debt service requirements;
- Identifies the most economical means of financing capital project;
- Increases opportunities for obtaining federal and state aid;
- Relates public facilities to the Town's strategic plan or public and private development and redevelopment policies and plans;
- Focuses attention on community objectives and fiscal capacity;
- Keeps the public informed about future needs and projects;
- Coordinates overlapping units of local government to reduce duplication, and encourages careful project planning and design to avoid costly mistakes and reach goals.

Creating the Plan

The Town developed an administrative process that established policies and procedures for submitting and evaluating projects. This includes:

Instructions for identify and submitting project
A schedule for the submission of projects, and
A method of evaluating and ranking projects

Process Overview

The following steps guide the Town's revised capital plan process:

The Town Administrator sets a schedule for completing the CIP process;

The statuses of previously approved projects are determined;

Project requests are solicited and entered in the Town's database

Town Administrator reviews and evaluates each project in accordance with ranking methodology;

A recommended method of financing reviewed in advanced with the Town's Financial Advisor (FA) is proposed for each project;

The Town Administrator informs departments as to the approved priority of projects;

The Town Administrator submits the proposed CIP to the Board of Selectmen, Advisory Committee and Capital Planning Committee;

The Capital Planning Committee, Board of Selectmen and Advisory Committee review and deliberate Town Administrator's recommendations;

The Capital Planning Committee, Board of Selectmen and Advisory Committee vote to adopt or revise Town Administrator recommended CIP program;

Town Administrator submits includes annual capital article on warrant for Town Meeting Authorization

Capital Program Categories

An overall capital plan generally focuses on five "Program Categories:"

Land – the acquisition through purchase, long term lease, with or without conditions, of undeveloped real estate. If the acquisition of land is associated with the acquisition of a building or an infrastructure project, the project should be categorized in those respective categories.

Building – The replacement, renovation, addition to, construction or acquisition through purchase or long-term lease of a building structure or a major component thereof.

Infrastructure –This category would include such things as water and sewer pipes, pumping stations, roadwork, sidewalks, traffic signals, drainage systems and other improvements of a lasting nature but not related to building structure.

Equipment (rolling) - All equipment that meets the definition of a capital project item that is capable of self-propulsion from one location to another.

Equipment (non-rolling) - All other equipment that meets the definition of a capital project item. The item may be transportable; however, if it is capable of moving under its own power it should be classified under "Equipment (rolling)". If the item is a piece of equipment that is intended to be permanently installed in a building such as an air-condition system or a furnace, then that item should be classified under "Building"

Capital Program Priorities

Given the current budgetary environment that limits the amount of funds available each year for capital projects, it is necessary to prioritize the capital requests so as to stay within the Town's financial capabilities. To this end the Town Administrator has numerically rated projects based on six weighted criteria including overall fiscal impact, legal mandates, advancement of the Town master plan, impact on service to the public, urgency of maintenance needs, whether or not prior phases have been funded, and departmental priority rank. Generally, the project receiving the highest number of points is funded first, then the project with the next highest score is funded next and so on until the pool of available funds is depleted for that particular fiscal year with departures from this method allowed for multi-year project and/or large building projects. This disparity is necessary because large building project often receive high priority but if they were to be funded in one year the resulting debt service would exceed prudent debt limits. Therefore, when this occurs for the purpose of the CIP, these types of projects will be distributed throughout the five-year plan and certain large-scale projects may require a Proposition 2 ½ debt exclusion vote in order not to overwhelm the tax levy. The process then repeats in subsequent years.

Finally, as previously noted, a capital budget plan is a fluid document subject to change each year as priorities change. As a result, a project, which had a priority score in a previous capital plan, may have a different score in subsequent year updates. After the first year of the capital plan, the information provided in the subsequent years is not so much to provide a form "pecking order", but rather to identify trends far enough in advance to address problems in a rational and timely manner.

Capital Fund Program Impacts

One of the most difficult challenges facing the Town today is to establish an investment in its capital assets while successfully managing the financial impact on both the General and Enterprise Fund budgets. In light of the importance of crating this planned program of infrastructure repair and replacement, the Town must be committed to establishing and maintaining an annual Capital Budget, with the goal of reversing the effects of years of deferred maintenance and replacement.

In alignment with most successful municipal capital plans, a limit of net debt service between 3-5% of the Town's net revenues is recommended as a target goal. Net debt and net revenue represent the total debt service/revenue less amounts authorized as excluded from Proposition 2 ½ or the Massachusetts School Building Authority.

Debt Limits

General Debt Limit. The General Debt limit of the Town considers of a Normal Debt Limit and a Double Debt limit. The normal Debt Limit is five (5%) of the valuation of taxable property as last equalized by the Department of Revenue. The Town can

authorize debt up to this amount with out state approval. It can authorize debt up to twice this amount (the Double Debt Limit) with the approval of the Municipal Finance Oversight Board.

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes; emergency loans; loans exempted by special laws; certain school bonds, sewer bonds, solid waste disposal facility bonds and economic development bonds supported by tax increment financing; and subject to special debt limits, bonds for water (limited to ten (10%) of equalized valuation) housing, urban renewal and economic development (subject to various debt limits)and electric, gas, community antenna television systems, and telecommunications systems (subject to separate limits). Revenue bonds are not subject to these debt limits. The General Deb Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

Revenue Anticipation Notes The amount borrowed in each fiscal year by the issue of revenue anticipation notes is limited to the tax levy of the prior fiscal year, together with the net receipts in the prior fiscal year from the motor vehicle excise and certain payments made by the Commonwealth in lieu of taxes. The fiscal year end on June 30. Notes may mature in the following fiscal year, and notes may be refunded into the following fiscal year, to the extent of the uncollected, unabated current tax levy and certain other items, including revenue deficits, overlay deficits, final judgments and lawful unappropriated expenditures, which are to be added to the next tax levy, but excluding deficit arising from a failure to collect taxes of earlier years.

Debt Service Impact on the General Fund

In an effort to balance the cost of debt service throughout the program, projects regardless of administrator and department ranking, are placed in outlying years. Also, certain large scale projects may require a Proposition 2 ½ override.

Debt Service on the Enterprise Funds

Based on the Enterprise Fund accounting methodology, all costs associated with the operation and maintenance of the water, sewer, Widow's Walk, waterways and transfer station, including debt service must be supported by user charges

Capital Program Fund Sources

Funds for capital investment are derived from several sources: Enterprise Funds; General Obligation Bonds, General Fund revenues, Free Cash, state and local (CPC) grant funds.

General Obligation Bonds

Under Massachusetts law, the Town is authorized to issue general obligation indebtedness. These bonds are generally required to be payable in equal or diminishing annual principal amounts beginning no later than the end of the next fiscal year

commencing after the date of issue and ending within the terms permitted by law. Level debt service is permitted for bonds or notes issued for certain purposes, and for those projects for which debt service has been exempted from property tax limitations. The maximum terms vary from one year to 40 years, depending on the purpose of the issue. Most of the purposes are capital projects. Beginning in FY 13, the Town, through the new CIP process is endeavoring to allocate 2-3% of its net general fund revenue to capital.

Enterprise Bonds

Like the general fund budget of the Town, Enterprise Funds may finance planned capital improvements from current “rate revenue” or from long-term bonds, which must be repaid over time using future rate revenue. Water and Sewer in particular are trying to balance mandated improvements and deferred maintenance which has had the result of increasing debt service level. However, the CIP recommends funding of high priority and mandated projects and this will most likely continue for the immediate future.

General Funds/Operating Budget/Free Cash

Non-debt financing annually devotes revenue from the General Fund budget, uses the undesignated fund balance “Free Cash”, or Stabilization Fund interest to finance all or a portion of projects. It is also important to note that some town departments carry a “capital” line item in their operating budget each fiscal year. In general these items are for expenditures of a shorter useful life or lower cost than those that would qualify as capital items under the policies of the CIP. For example, police cars have a useful life of less than five year and that line item appears in the police operating budget.

State and Federal Grant Sources

The state and federal government continue to play a role, although much diminished, in funding infrastructure improvements, open space, and economic development. Generally, the state or federal government borrows money and then makes it available through a grant application process to municipalities. Funds, such as the Community Preservation Act, assist the Town in financing capital that is not reliant upon the General Fund. The Commonwealth for certain projects like water and sewer, also makes available 0% or low interest loans for financing projects.

School Building Assistance Program (MSBA)

This program supports funding for school construction and renovation. Reimbursements rates under the MSBA are dependent upon many factors, an important one of which is meeting energy efficiency standards.

TOWN ADMINISTRATOR FISCAL YEAR 2012 CIP RECOMMENDATIONS

Attached is an itemization of FY 12 Town Administrator capital projects recommended for funding. Total FY 12 unrestricted departmental requests for both General Fund and Enterprise Funds was: **\$13,654,100.00**. The Town Administrator is recommending a total FY 12 CIP of \$ 3,390,050.00.

The recommendations breakdown as follows:

General Fund Available Funds: Pay-As-You-Go (1)	\$ 329,000.00
General Fund Projects –Borrowing	\$1,795,000.00
Enterprise Funds – Borrowing (2)	\$ 655,000.00
TOTAL	\$3,089,000.00

(1) FY 12 Pay-As-You Go Funding Sources:

Interest from Stabilization Fund:	\$ 15,814.00
Retirement of Debt	\$ 25,271.00
Free Cash	\$ 300,000.00

(2) Some Enterprise Fund projects may be pay-as-you go after revenues are projected against FY 12 budgetary appropriations.

A combination of borrowing and available funds is recommended to seed the revised FY 12 Capital Improvement Program. Available funds generating from the interest from the Stabilization Fund, retired debt surplus, and Free Cash will begin a regular program of pay-as-you-go capital supplemented by borrowing for larger cost items or projects.

In the past, other than enterprise debt, the Town used a kind of “faux” pay-as-you-go funding concept in that it was using funds for capital purchases but they were coming from the Overlay Reserve and Stabilization, neither prudent vehicles for expenditure as they are intended to be reserves. True pay-as-you-go earmarks funds from the three areas noted above. This, coupled with earmarking 2-3% of net operating revenue each year to fund long-term capital, insures that some kind of capital is let each year. The capital plan must run concurrent with the operating plan; they are not mutually exclusive. The Town has more than sufficient capacity to take on additional debt and still be well within the debt ceiling. The lack of regular capital funding has not surprisingly resulted in an ever growing list of unfunded capital other than the various enterprise funds. The overall financial health of the Town requires us to expand our commitment to funding capital.

Working with the Town's Financial Advisor (FA), First Southwest, the financial team has developed a capital plan template that will illustrate how the various projects recommended for FY 12 are to be funded. This template will also overlay the current debt service the Town is carrying along with our anticipated bond issuance in March of 2011.

The CIP is still a work in progress and not yet complete. Included in this Plan are unrestricted departmental requests for FY 2102-FY 2016. They are "judgment free" and are placed on the rolling capital list. The ratings for these will be undertaken over the next few months. Each year, the requests will be reviewed again and any required adjustments made. In this way the Town will not be approving an amount of debt in a given year that does not take into consideration projects coming along in future years. Since we do not have the completed rolling plan yet, FY 12 CIP is somewhat in a vacuum until this second phase is completed. However, the recommendations contemplate future capital projects, existing debt, and authorized but unissued debt. We will continue to be working closely with our FA as we develop the plan.

An interim review by Moody's last week has kept the Town's bond rating steady. *Any deviations from the policies employed during the past 18 months will put this rating in jeopardy.*

Aggressive work to improve the Town's infrastructure after years of benign neglect, particularly water and sewer, has resulted in debt service for these projects for the foreseeable future. The Enterprise Funds ability to continue to approve projects and properly fund the debt service associated with prior authorized projects needs to be moderated. As a result, FY 12 funding recommendations for water and sewer projects is markedly lower than in previous years. Improvements will continue, but not at current rate. The Board of Selectmen has committed to a five (5%) annual increase in water rates, but again, the number of projects currently authorized will use most of this additional revenue capacity. FY 12 sewer rates must be increased as well to address the infrastructure needs in that enterprise fund. Finally, this year, the School Building Assistance Program (SBA), will be an external source of funding as the debt for Wamputck School renovation will be reimbursed 40.68%.

In closing, much work has gone into the development of the new CIP. My gratitude is extended to Mary Gallagher, Jane Lepardo and Sheila Manning for their assistance.

Respectfully submitted,

Patricia A. Vinchesi
Town Administrator