

Strategic Financial Planning Committee for Capital Funding Minutes
Thursday, October 13th
7:30 AM – 9:00 AM
DPW Conference Room, 275 Old Lancaster Rd.

Present: Charles Woodard (Chairman), Mark Howrey, Lisa Kouchakdjian, Joan Carlton, Elena Kleifges, Kevin Matthews, Patricia Brown, Thomas Travers, James Kelly, Melissa Murphy-Rodrigues, Dennis Keohane

Absent: Adrian Davies, Lucie St. George

Also Present: Susan Rothermich (Sudbury Public Schools Business Manager)

The Chairman called the meeting to order at 7:35 am.

Selection of Clerk: Joan Carlton volunteered to take minutes for this meeting.

Approval of Minutes: The minutes of September 20th meeting were approved.

How other Towns Fund Capital Projects: Melissa Murphy-Rodrigues reviewed her research on how other towns fund their capital projects. A copy of her notes is attached. Below are some highlights.

- For FY17 Concord spent \$1,800,000 on town capital projects and \$1,004,618 on school capital projects all within the levy limit.
- Concord's capital financing policy has a target of 7-8% of the total budget net of excluded debt in the levy.
- Weston's goal is such that user fees will be set to cover the capital costs of Enterprise type services to the extent possible.
- Weston created a capital improvement account in May 2012 with an appropriation of \$500,000 from free cash. The intent is to appropriate each year any amount not needed for free cash.
- Northborough Free Cash policy attempts to align onetime revenues with appropriate onetime expenses such as capitalization of the Stabilization Fund and Capital Improvement Projects.
- Arlington's goal is to have planned capital expenditures not to exceed 5% of annual revenues averaged over time.

Discussion of Capital Funding Approaches: The committee had a long discussion of potential ways to fund capital projects. Some highlights from this discussion are below.

- Using information in the 10 year capital plan, Chuck Woodard explained that the capital plan for FY18 is approximately \$3,200,000; the 10 year average need is approximately \$3,000,000 per year and the average for the first 5 years is approximately \$4,000,000 per year.
- Chuck Woodard explained that there was free cash available to pay for capital needs in the FY14, FY15 and FY16 primarily due to the conversion to the GIC

and the resulting drop in health care costs due to reduced rates and less participation.

- There was some discussion of whether the Free Cash Policy should include a percent or amount allocation for capital projects.
- There was considerable discussion on increasing the capital budget within the operating budget from the current \$411,000 (in the FY18 budget) to around \$2,200,000. The committee members generally agreed with this idea but understood that it would require an override. Given the pressure on the FY18 Operating Budget, there was discussion on whether this was feasible for FY18.
- Dennis Keohane estimated that there would be approximately \$2,000,000 available in Free Cash after allowing for articles in the warrant for the October Town meeting, the Free Cash minimum and a contribution to the Stabilization Fund.
- There was considerable discussion of using Free Cash to fund capital vs. increasing the capital budget within the operating budget both for FY18 and for the long term.
- Chuck Woodard advised people to think about today's discussion and that he will continue the discussion at the next meeting.
- Mark Howrey asked for guidance for CIAC on an amount for capital projects for FY18. Chuck Woodard advised Mark to go with \$2,000,000 for now, the amount available from Free Cash.

Meeting schedule: The Committee will meet at 7:30 AM on Thursday, November 3rd, and at 7:30 am on Thursday, December 8th.

The meeting was adjourned at 9:03 am.

Concord:

FY17

Capital outlay expenditures supported within the levy limit (Town: \$1,800,000, Schools: \$1,004,618)

Capital expenditures within the levy limit supposed via FY debt authorization (\$3,900,000). These authorizations were funded in the debt service account and were not part of a Debt Exclusion.

Capital Financing Policy

Target: 7-8% of the total budget net of excluded debt levy (This includes debt payments in general fund and capital funded by operating)

Debt

1. At least \$100,000 and useful life in excess of 5 years
2. Term not to exceed useful life and in general not to exceed 20 years
3. Rapid repayment schedule (60% of principal within 5 years and 90% within 10 years for tax supported not excluded debt)
4. Debt exclusion may be above the 7-8% allocation limit and have longer repayment schedule
5. For all debt exclusions, tax impact shall be calculated before the vote
6. All debt shall be general obligation debt

Weston:

Debt only taken for items too expensive to be financed from current revenues. Commitment not to bond items under \$25,000.

User fees will be set to cover the capital costs of Enterprise type services or activities to the extent possible.

FY17 budget

\$509,237 facility improvements

Funding in continuing balance accounts to fund capital expenses in DPW including: design, signal projects, construction of public ways, department equipment, stone wall repairs, planning studies, bridge replacements (\$1,170,000)

FY17 general fund debt: \$69,751 a year total of \$2,882,500, excluded debt \$8,934,077

Weston created a *capital improvement account* in May 2012 with an appropriation of \$500,000 from free cash. The intent is to appropriate from retained earnings each year any amount not needed for another purpose and accumulate at least \$4 million in this account over the next 20 years.

Northborough

Adoption of a new Free Cash Policy The process of preparing the CIP and the FY2012 Capital Budget has remained essentially the same as in recent years. However, the Board of Selectmen adopted a Free Cash Policy in November of 2010, which provides a funding source for projects, other than municipal bonds. The new Free Cash Policy is on page 2 in Appendix A of this budget document, which contains the Town's comprehensive financial policies. In its most basic definition, Free Cash is the fiscal year-end combination of revenues that come in higher than estimated and expenditures that come in lower than budgeted. After the June 30th close of the fiscal year, the Town's Free Cash is certified by the State Department of Revenue and available for appropriation. Free Cash certified at the close of FY2010 is available for use in the FY2012 Capital Budget.

_____ TOWN OF
NORTHBOROUGH, MASSACHUSETTS _____ Section 9-1 The newly adopted Free Cash Policy attempts to align onetime revenues with appropriate one-time expenditures. A goal of the policy is to minimize the level at which recurring expenses, such as personnel, are dependent upon this revenue source. To that end, the following are explicitly authorized uses of Free Cash under the adopted policy: 1. Appropriation Committee's Reserve Fund 2. Limited Subsidy of the Operating Budget 3. Capitalize the Stabilization Fund 4. Capital Improvement Program 5. Extraordinary Deficits & Emergency Appropriations Under the new policy, one appropriate use of Free Cash is to fund capital projects that would otherwise incur borrowing costs associated with the issuance of debt. The financing of small capital projects or equipment is not considered a best practice for a community our size. Although perfectly legal, the Town endeavors to move away from incurring debt for vehicles and small equipment purchases. Bond rating agencies prefer to see Towns using a pay-as-you go approach for smaller capital projects. The one-time nature of Free Cash makes it an excellent match for one-time capital expenditures. If for some reason sufficient Free Cash does not materialize in a given year, the Town may borrow for capital projects, or delay them, without causing immediate impacts to the operating budget and related services.

Lexington

Funding sources

Cash Financing: Available funds: free cash, tax levy, enterprise fund retained earnings, specialized stabilization funds and unexpended funds when available.

Debt: large dollar value capital projects. Payments can be funded from General fund (either within levy limit or through exclusion), Enterprise and revolving accounts or CPC.

Other sources: state aid and grant funding (CH 90)

CPA funds

In FY 17: total capital expenditure proposed: \$92,104,105

Free cash and tax levy: \$5,294,164

Tax Levy debt \$6,970,507

Proposed Excluded Debt Projects \$ 67,356,000

Chapter 90/Other Funding - \$ 8,853,790

Water Enterprise \$ 220,500

Sewer Enterprise \$ 1,768,000

Recreation Enterprise \$65,000

Community Preservation Act \$1,398,644 \$

Arlington

The Capital Planning Committee, with the support of the Finance Committee and Town Meeting, has planned capital expenditures not to exceed 5% of annual revenues averaged over time.

Wayland

TOWN OF WAYLAND

Debt Management Policy

Purpose:

To establish a criteria for the issuance of debt obligations so as not to exceed acceptable levels of indebtedness,

To provide consistency and continuity to public policy development through the Town's Capital Improvement Plan, a mechanism that provides evidence of a commitment to meet infrastructure needs through a planned program of future financing,

To transmit a message to investors and rating agencies who value such evidence of a community's commitment to financial management, and

To state the guiding principles and general policies related to debt management.

1. Capital items must be \$10,000 or greater to issue debt to finance the project.
2. Debt will not be issued for a term longer than the expected useful life of the asset.
3. Total net debt service should not exceed ten percent of the total general fund expenditures.
4. On an overall basis, all general obligation debt should be structured to retire approximately seventy five percent of the Town's indebtedness within 10 years.
5. All street reconstruction, building repairs, improvements, design and related expenditures should be subject to a debt exclusion vote.
6. All land purchases from the general fund should be subject to a debt exclusion vote.

7. All equipment purchases/repairs \$100,000 or greater should be subject to a debt exclusion vote.

8. Other items will be reviewed on an individual basis to be considered for inclusion in a debt exclusion vote.

9. All police cruisers are deemed to be operating expenditures, not capital.

10. All passenger vehicles and small ticket equipment should be financed with cash capital and not financed by issuing debt (for example, inspection or other staff vehicles).

11. In order to maintain the highest bond rating, AAA, general fund reserve levels should be in the range of 5-10 % of operating expenditures