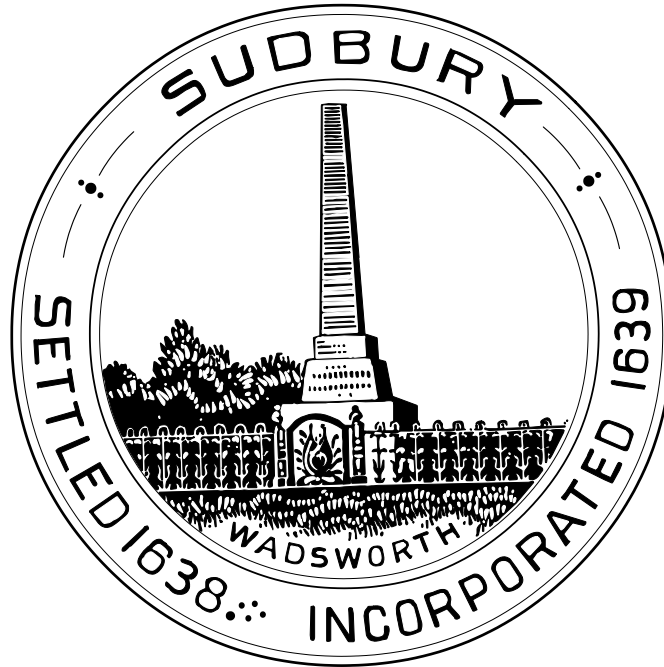


TOWN OF SUDBURY

Final Report of the Strategic Financial Planning Committee for Capital Funding



January 15, 2015

I. Introduction

The Board of Selectmen created the Strategic Financial Planning Committee for Capital Funding (hereafter the Capital Funding Committee) to develop a disciplined framework for funding the Town's capital needs for the future. The mission of the Capital Funding Committee was amended by the Board of Selectmen on May 20, 2014 to annually generate, evaluate and recommend financing strategies both short and long term, in connection with the Town's Capital Improvement Planning (CIP) for the capital needs of the Town, the Sudbury Public Schools and Lincoln-Sudbury Regional High School so as to protect the Town's investment in its capital assets. The intent was that the Capital Funding Committee could develop a report, with recommendations, that could be used for "scheduling capital projects over the next 15 years"¹. Last year, the Committee developed specific recommendations for FY15 and capital funding policy recommendations for future years (see Attachment B). This year the Capital Funding Committee has developed specific recommendations for FY16, and has general thoughts on the 5 year Capital Improvement Plan (CIP).

The recommendations were developed after lengthy consideration of the approximately \$73 million in projects on the 5 year CIP. \$41 million of that represents three major potential projects: renovation of the Town Hall (\$10 million), design and construction of a sewer facility for the Route 20 Business area (\$15 million) and renovation or replacement of the Fairbank Community Center (\$16 million). As all design and construction estimates for these three projects are still preliminary, as well as proposed start dates, the Capital Funding Committee is using the preliminary project information generated thus far. The other \$31.8 million represents a long list of projects to repair Town, SPS and L-S facilities and infrastructure, enhance and replace Fire/EMS equipment, purchase DPW rolling stock and equipment, provide design services on rail trail projects, provide improvements to Recreational assets, enhance and upgrade Town and school technology, and improve intersections or bridges in Sudbury.

Attachment A is a summary of the five year CIP shown two ways. Table 1 of the attachment is **Total Capital Spend**, and this shows the proposed spending for the five year CIP from FY16 through FY20, as well as the prior nine years of capital spending by the Town. The projects are categorized by funding mechanism for the type of project that the committee felt made the most sense. For example, projects which cost from \$50,000 to \$1,000,000 are categorized as Small Projects. Larger projects, generally exceeding \$1,000,000 and good candidates for bonding, are categorized as Large Projects. The Table shows the total estimated cost of future projects.

Table 2 of the attachment is **Capital Component of Taxes**, showing the same five year CIP, plus nine years of history, by the projected annualized payments from the tax levy for the CIP. The primary differences between Table 1 and Table 2 are that debt service for existing plus future

¹ See Mission Statement in Attachment C

large projects are shown on a year by year basis rather than the total project cost in the year of potential approval. And this shows the net cost of projects such as those for School Roofs, where there is an offset for the grants that are received for these projects, lowering the impact on the tax levy.

The last page of Attachment A contains data that were used to build the CIP financing model.

The Johnson Farm property and the Nixon Roof project are included in these two tables as they were approved by voters in December 2014. They are shown as new Large Projects in FY16 on Table 1 and Large Project Debt Exclusion on Table 2.

FY16 Recommendations

The primary task of the Capital Funding Committee was to create and submit to the Selectmen a report that the Board, Finance Committee, Capital Improvement Advisory Committee and staff can use for considering the financing of the projects that have been submitted. Our specific recommendations for FY16 are as follows:

1. The five year CIP should be updated annually. Each updated CIP should start with the five year CIP from the prior year.
2. The Strategic Financial Planning Committee for Capital Funding should be renamed the Capital Funding Committee, and each year it should make recommendations on funding guidelines for the next fiscal year. Ideally, the Capital Funding Committee should begin its work in July of each year in order to develop its recommendations before the CIAC begins its project review meetings in the fall.
3. The annual appropriation for capital spending that is paid from the annual tax levy should be no more than \$4.85 million annually, excluding major new projects. As a source for this number, this begins with the amount (\$4.7 million) appropriated in FY14, which the committee had previously discussed to use as a rough estimate of the ceiling on what could be spent each year over the next “five year interval” on capital needs other than major projects. This assumes that the recommended funding policy is followed, and the Town is able to get caught up on the backlog of capital needs that have built up after ten years of underinvesting. The Capital Funding Committee updated this recommendation to add an estimated \$150,000 annual debt service in connection with the Johnson Farm acquisition to the \$4.7 million ceiling, as the committee did not anticipate bonding this project out of the tax levy at the time last year’s analysis and recommendations were completed.
4. A capital exclusion for up to \$2.1 million should be considered by the CIAC as potential funding for the lengthy list of Small Projects (that is, those over \$50,000 but less than \$1,000,000), which totals approximately \$2.1 million in FY16 as it includes two major pieces of DPW equipment as well as \$1.8 million from the Small Projects list.

5. A portion of the Town's Free Cash is recommended to be applied to offset the \$2.1 million Capital Exclusion. The Capital Funding Committee recommends that approximately \$800,000 of Free Cash be used to fund those projects recommended by the CIAC. This would mean that if the CIAC recommended all projects on the \$1.8 million list plus the DPW equipment, it would require a \$1.3 million capital exclusion ballot question along with use of \$800,000 in Free Cash. NOTE 1: The capital projects on the Small Projects list would be presented as articles for Town Meeting consideration, either individually or similar projects grouped together. NOTE 2: As there are no funds in the Special Purpose Stabilization Fund for DPW Rolling Stock, (hereafter the DPW Stabilization Fund) which was established by Town Meeting in 2014, the two pieces of DPW heavy equipment cannot be charged to that fund in FY16.
6. The newly established DPW Stabilization Fund should have some funding appropriated into it at the 2015 Annual Town Meeting (see recommendation #7), but to truly activate this Fund, further work must be done to determine the best way to ensure funding is available to replace DPW heavy equipment and trucks in the future. The Capital Funding Committee feels that a capital override is a viable strategy to accomplish this goal, but that more study should be done to fully understand how this mechanism will work, and to address concerns about such a specialized override. And the Committee recommends that substantial educational efforts should be developed so that residents have an opportunity to study the capital override proposal well before the 2016 Town Meeting and Town elections, should that approach be selected by the Board of Selectmen. Finally if a capital override is not the best approach, what are the alternatives that will address the long standing problem of delay in replacing DPW rolling stock due to lack of available funding. NOTE 3: the Capital Funding Committee believes that when funds have accumulated in the Special Stabilization Fund for Rolling Stock, major pieces of Rolling Stock should be charged to this Fund. However, at this time there is no money in that Special Stabilization Fund, which was newly created at the 2014 Annual Town Meeting.
7. The 2015 Annual Town Meeting should be asked to appropriate the money that the Town receives from the rental of land for a cell tower at the DPW Transfer Station to the DPW Stabilization Fund. The Town receives approximately \$113,000 annually for the cell tower at the Transfer Station and those rental payments currently go to the General Fund. Further, the Capital Funding Committee recommends that each year going forward, these rental payments are appropriated into the DPW Special Stabilization Fund. NOTE 4: The Town has awarded a bid for rental of land behind the DPW building for a new cell tower, but the successful bidder has not begun the permitting process yet. If a new cell tower is eventually constructed, the Capital Funding Committee recommends that rental payments from that tower also be placed in the DPW Special Stabilization Fund. The appropriation of cell tower rental funds will require annual votes at Town Meeting.

Summary of FY16 Capital Funding Recommendations

FY16 Capital Funding Recommendations	FY16
Existing Debt Service	\$ 1,823,034
Capital budget within tax levy, projects under \$50K	\$ 392,750
Operating DPW leases in DPW budget	\$ 224,040
DPW Heavy Equipment - Capital Exclusion	\$ 311,300
Small Projects - Capital Exclusion	\$ 1,835,250
Police Station to be issued, will be in FY 16 debt service budget	\$ 615,000
Johnson Farm to be issued, will be in FY16 debt service budget	\$ 142,500
Nixon Roof to be issued, will be in FY16 debt service budget	\$ 85,509
Total Recommended	\$ 5,429,383
Use of Free Cash to reduce capital exclusion/tax impact	\$ 800,000
Total from the Tax Levy for Capital	\$ 4,629,383

Other Considerations

The Capital Funding Committee is mindful of other factors that will affect the need for and availability of funding for capital in the future. These considerations are listed below. The work of the Capital Funding Committee in future years may change depending on what happens with these items.

1. The amount and timing of the “big three” capital projects mentioned previously: The Town Hall project, the Fairbank Community Center project, and the Sewer project. Therefore the Capital Funding Committee have projected debt service amounts and dates to facilitate discussions, but have not included them in our total capital spending for the CIP. Further, the Capital Funding Committee believe if they are brought forward for consideration by voters, they should not supplant the other projects on the CIP, but rather voters should be asked if they want these projects above and beyond our targeted \$4.85 million annual capital spending.
2. The large request from the Park and Recreation Commission to redevelop and expand Davis Field. The projected \$8.3 million of capital spending in FY17 assumes and includes \$2 million of debt funding for the Davis project, with amounts above \$2 million assumed to come from other sources including CPA funds and private funding.

3. An assumption that the Board of Selectmen will request that \$1.1 million in gravel receipts will be put into a special stabilization fund to hold these monies for a future time. The Committee does not know yet if the Board of Selectmen will recommend this step, or if Town Meeting will approve this. For the time being, the Capital Funding Committee are using a working assumption that \$1.1 million in Free Cash is needed for this purpose.
4. Sale of the existing Police Station on Route 20. The question of the future of the station property needs to be taken up, and if it is sold, it might generate \$500K or more. These funds may have to be voted to be used for a capital purpose, since this involves sale of a capital asset. If so, those are funds that could help fund part of future CIP.
5. Alternative Uses for Free Cash. This committee recognizes that the Town/SPS/L-S are proposing to begin various actions to address the Normal costs for OPEB obligations and determine if there is a possibility to permanently direct a stream of revenue to these costs. The Finance Committee and others may also want to consider the use of Free Cash to address the unfunded liability for past Normal costs, thus the Capital Funding Committee recommends leaving some Free Cash for either other purposes such as OPEB OR to help with the Capital Spending plans in FY17, which at this time exceeds the target amount of \$4.85 million from the Tax Levy.
6. Policies on use of bonding. A question arose at the 2014 Special Town Meeting on which projects are recommended for bonding versus which might be recommended for other funding, including Free Cash. The Capital Funding Committee took the following position last year: Try to reserve debt usage for Large Projects; Use debt exclusions to bond large projects over the term permitted by State law; and, for fiscal years FY16, FY17, and FY18 only, consider bonding some of the Small Projects to enable the Town to catch up on the large backlog of capital needs in a planned fashion without substantial increases in the tax rate in any one year. Reviewing the updated CIP one year later the Capital Funding Committee believes there is still a need to bond some Small Projects to “get over the hump”, but the recommended three years now appear to be FY17, FY18, and FY20.

Lastly, the Capital Funding Committee wants to remind all readers of this report that there are other capital spending amounts that are already built into the Town’s FY16 spending plans. This includes: debt service for both issued and authorized but unissued debt (Police Station, Johnson Farm and Nixon Roof project); the operating capital budget for those projects less than \$50,000, which is recommended for \$392K in FY16; and the leases for DPW equipment in the DPW budget, which are going down as older leases are being paid off.

Total Capital Spend

	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>
Capital Budget within tax levy	\$284,062	\$296,000	\$392,750	\$402,569	\$412,633	\$422,949	\$433,523
Operating Leases for Capital	\$270,723	\$271,040	\$224,040	\$177,040	\$130,040	\$83,040	\$0
Other New Capital Spending	\$710,000	\$0	\$0	\$0	\$0	\$0	\$0
Rolling Stock	\$0	\$558,300	\$311,300	\$486,500	\$340,000	\$434,500	\$309,500
Public Safety	\$0	\$685,000	\$0	\$1,695,000	\$0	\$0	\$0
Small Projects	\$0	\$1,060,000	\$1,835,250	\$3,150,182	\$3,936,541	\$2,051,051	\$4,899,114
Large Projects excl Big Five	\$0	\$0	\$2,600,000	\$0	\$1,865,000	\$1,000,000	\$1,815,000
Total New Capital Excl Big Five	\$1,264,785	\$2,870,340	\$5,363,340	\$5,911,291	\$6,684,214	\$3,991,540	\$7,457,137
Police Station			\$8,200,000				
Davis Field				\$2,000,000			
Town Hall					\$10,000,000		
Sewer						\$15,000,000	
Fairbank							\$16,000,000
Total Big Five	\$0	\$0	\$8,200,000	\$2,000,000	\$10,000,000	\$15,000,000	\$16,000,000
Total Capital Spend	\$1,264,785	\$2,870,340	\$13,563,340	\$7,911,291	\$16,684,214	\$18,991,540	\$23,457,137
Capital Budget within tax levy							
Operating Leases for Capital	\$285,095	\$384,148	\$362,500	\$276,622	\$273,271	\$222,003	\$255,584
Other New Capital Spending	\$163,165	\$186,206	\$150,542	\$246,761	\$255,783	\$316,944	\$291,745
Total New Capital Spend	\$448,260	\$570,354	\$513,042	\$523,383	\$529,054	\$538,947	\$547,329

Capital Component of Taxes

	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>
Existing Debt Service	\$3,380,475	\$2,017,776	\$1,823,034	\$1,633,982	\$1,518,004	\$1,172,516	\$1,172,458
Capital Budget within tax levy	\$284,062	\$296,000	\$392,750	\$402,569	\$412,633	\$422,949	\$433,523
Operating Leases for Capital	\$270,723	\$271,040	\$224,040	\$177,040	\$130,040	\$83,040	\$0
Rolling Stock - Capital Exclusion			\$311,300	\$373,138	\$223,237	\$314,234	\$185,626
Rolling Stock - use Cell Tower Lease \$ in Stabilization Fund			\$0	\$113,362	\$116,763	\$120,266	\$123,874
Small Project- Capital Exclusion	\$700,000	\$685,000	\$1,835,250	\$995,932	\$1,448,719	\$2,051,051	\$1,555,783
Small Project- Debt Exclusion			\$0	\$373,240	\$769,705	\$756,065	\$1,260,045
Ambulance- Capital Exclusion			\$0	\$245,000	\$0	\$0	\$0
Fire Trucks- Debt Exclusion			\$0	\$189,275	\$184,190	\$179,105	\$174,020
Police Station			\$615,000	\$604,750	\$594,500	\$584,250	\$574,000
Large Project Debt Exclusion*****			\$228,009	\$222,725	\$389,908	\$503,025	\$660,517
Total Capital- Tax Bills	\$4,635,260	\$3,269,816	\$5,429,383	\$5,331,013	\$5,787,699	\$6,186,501	\$6,139,846
Free Cash	\$0	\$1,618,300		\$0	\$0	\$0	\$0
Total incl Free Cash	\$4,635,260	\$4,888,116	\$5,429,383	\$5,331,013	\$5,787,699	\$6,186,501	\$6,139,846

*****Not including Police Station, Davis, Town Hall, Sewer, or Fairbank

	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>
Debt Service	\$ 5,225,728	\$ 4,146,295	\$ 5,030,127	\$ 4,850,950	\$ 4,709,299	\$ 4,335,060	\$ 4,248,850
Capital Budget within tax levy	\$ 285,095	\$ 384,148	\$ 362,500	\$ 276,622	\$ 273,271	\$ 222,003	\$ 255,584
Operating Leases for Capital	\$ 163,165	\$ 186,206	\$ 150,542	\$ 246,761	\$ 255,783	\$ 316,944	\$ 291,745
Capital Exclusion		\$ 405,000					
Total Capital- Tax Bills	\$ 5,673,988	\$ 5,121,649	\$ 5,543,169	\$ 5,374,333	\$ 5,238,353	\$ 4,874,007	\$ 4,796,179

Small Project Capital Exclusion Detail

	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>
Capital Excl = operating capital request > operating capital budget					
Capital Exclusion funding per Small Project List	\$0	\$470,932	\$132,424	\$51,051	\$285,283
Capital Excl for bondable Small Projects FY16 & FY 19 that are not bonded	\$379,000	\$525,000	\$1,316,295	\$535,000	\$1,270,500
Total Capital Exclusion	\$1,456,250	\$0	\$0	\$1,465,000	\$0
	\$1,835,250	\$995,932	\$1,448,719	\$2,051,051	\$1,555,783

Total Cost of Capital Assets	
LS (85%)	\$65,924,258
Town & SPS	\$98,436,310
Total	<u>\$164,360,568</u>

Five Year Capital Spend	
Nov 2014: FY16-FY20	\$80,607,522
Jan 2014: FY16-FY20	\$61,355,611
Five Year Small Project Spend	
Nov 2014: FY16-FY20	\$15,872,138
Jan 2014: FY16-FY20	\$12,372,250
Five Year Large Project Spend (excl Big Five)	
Nov 2014: FY16-FY20	\$7,280,000
Jan 2014: FY16-FY20	\$8,458,000

Interest Rate assumptions:	
5 years	2 %
10 years	2 %
15 years	2.5 %
20 years	2.5 %
30 years	3 %

Small Project bonding:
Minimum lot size \$1 million to bond, over 5 years
Excess above roughly \$1 million over 10 years

Large Project Detail (excl Big Five)

	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>
Nixon Cafetorium Roof/windows and exterior doors					
Johnson Farm Purchase	\$700,000				
Field Development (Davis, Featherland, Ti-Sales property)	\$1,900,000				
Haynes Roof Areas 5,6,7,9			\$1,865,000	\$1,000,000	
Feeley Field Reconstruction					
Nixon Roof Areas 1,2,4,5,6					\$1,815,000
Loring Roof Repair					
Sherman's Bridge Replacement					