Options for Funding Capital   1/4/2019 DCarty, SBerry, 1/11/19 SBerry, 1/17/19 DCarty, 1/17/19 by Committee,

Situation: Sudbury has ~$~~225~~240,000,000 of assets (Town, SPS, L-S~~),~~), including buildings, equipment, open space and rolling stock. The present capital budget included in the tax levy is approximately $450,000. With an overall budget of ~$100,000,000 this equates to ~0.5% planned for maintaining capital assets. Over the last few years and projected forward the cost of maintaining these assets, replacing or upgrading equipment and replacing rolling stock has averaged and will continue to average approximately $2,500,000 annually. This leaves a shortfall of approximately $2,000,000 a year which has been funded in the past by a combination of capital exclusions, use of free cash, debt exclusions and even some capital leases.

~~budgets only ~$450,000 annually for maintaining our capital assets, yet spends between $1,000,000 and $3,000,000 on same {***verify numbers***}. With an annual overall budget of ~$100,000,000 this equates to 0.5% planned for maintaining capital assets yet 1% and 3% actually spent, the difference often coming from unreliable sources like Free Cash allocations or tax increases.~~

Target: Establish a Capital cost center and reliable funding mechanism(s) to maintain capital assets at 2.5% of overall annual ~~budget~~appropriations.

Possible funding options:

- **Status Quo / Do Nothing** – Always an option, Sudbury could continue to do things as they have been done in the past.
  - Pros – no implementation hurdles
  - Cons – does not ~~address situation~~steer towards target
- **Reallocation of current budgets** – This would reduce amount of funding to one or more of the three existing cost centers (Town, SPS, L-S) and reassign money to capital budget
  - Pros – no direct financial impact to taxpayer (unless it triggered override request from an impacted cost center)
  - Cons – cost center(s) would be impacted as their budget would be cut
- **Override / Stabilization Override** - A one-time Prop 2 ½ override for all or part of the amount either in the form of a 'traditional' request or a Stabilization request.
  - Pros – Simple, Solves problem in perpetuity (assuming it stays allocated to capital), could lessen voter fatigue, more predictable for better planning
  - Cons - Impact to taxpayer, requires voter approval, requires voter education, stabilization override a bit of an unknown
- **Reallocation of retired debt outside of levy** – concept is as debt rolls off books an equivalent or less amount is then allocated to the capital budget
  - Pros – no increased impact to taxpayers
  - Cons – ~~assumes no or fewer new debt =i.e. large projects~~tax bills could still increase if a new large project was introduced, still requires voter approval of an override, complicated?, taxpayers may expect tax bills to drop as debt is retired

- **Use of Free Cash** – One of the current methods Sudbury uses to pay for maintaining capital assets;
  - Pros – low impact to taxpayer, easy to explain to voters as it's what we do currently
  - Cons - Uncertainty of Free Cash, possible inconsistent allocation for capital, can't build up funds as it resets each year, reduces the amount of Free Cash for other projects for any of the three cost centers
- **Reduction of CPA and reallocation to Capital** – Currently Sudbury pays a 3% surcharge for Community Preservation (CPA) to be used for Recreation, Historical, Housing, and/or Open Space preservation purposes. In the past the Commonwealth matched dollar for dollar but over time the match has dropped yet the surcharge has not. Sudbury could reduce the CPA surcharge and redirect that amount to capital.
  - Pros – no financial impact to taxpayers, would make funds available to more than just the four mandated purposes
  - Cons ~~– complicated to implement,~~ disjointed decisions {would need vote to reduce CPA percentage and then would need a separate vote on an override**}**, impact to CPC current and future/bonded projects
- **New Growth** – Temporary capture of all (typical) or part (extraordinary) of annual New Growth; build up Capital cost center over time until it gets to the 2.5% threshold then return new growth distribution across all 3 cost centers as is currently done
  - Pros – no impact to taxpayers (unless it triggered increase from an impacted cost center), temporary impact to cost centers, does not require voter approval
  - Cons – will take time (think OPEB), temporary impact to cost centers, new Growth is often pre-budgeted, true new growth surplus will be hard to track and will change over time, how to distinguish between "new Growth" and "extraordinary new growth", confusing/ may be hard to explain to taxpayers (although taxpayer approval not required)
- **Capture of Realized Efficiencies** – As cost centers save money rather than that savings going back to the cost centers it is instead allocated for capital. For example if purchasing a bucket truck so that the Town could do its own tree work rather than contract it out would save $100,000/year the following year the capital budget could be increased by that amount and it would grow in perpetuity. Similarly if one of the school districts purchased software that would save them money in labor costs that savings could be re-categorized into the capital budget.
  - Pros – No impact to taxpayers, does not require voter approval
  - Cons – May require targets for each cost center/how to enforce, how to accurately track and assign savings, will take time (think OPEB), may have negative impact to operating budget

Additional Considerations:

- A policy would be required for the use of Free Cash if no longer needed to fund maintenance of capital assets.

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- o Would need a plan for how to handle new capital projects vs. maintaining current capital assets i.e. this plan does not address large new capital projects.
- o A Capital Project process flow and timeline needs to be develop and enforced.

Proposal: The SFPCCF recommends that ~~xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxx~~ two options be considered:

- Immediate fix - $2million override. Override could be a Stabilization override or a typical override.
    - o Stabilization override would allow BOS to reduce override amount over time if alternative funding mechanisms identified. Purpose legally restricted for capital.
    - o Typical override may give flexibility to reduce future debt exclusions (may bring debt inside levy). Should include policy to fund capital budget at 2.5%
    - o Potential to reduce taxpayer burden by reducing CPA surcharge
    - o Would require update to Free Cash policy – may no longer be needed for capital maintenance
- Progressive funding of a 2.5% Capital budget over time using a combination of:
    - o Extraordinary New growth (i.e. growth without accompanying expenses) allocated until Capital budget reaches 2.5%
    - o Fraction of 'regular' new growth directed towards capital (see example calculations in appendix)
    - o Capture of portion of gained efficiencies achieved by cost centers
    - o Update Free Cash Policy to prioritize capital needs
- Two methods above could be combined

The SFPCCF recommends that the annual CIAC funding recommendations move from this committee to the Town Manager and that this committee be disbanded.

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