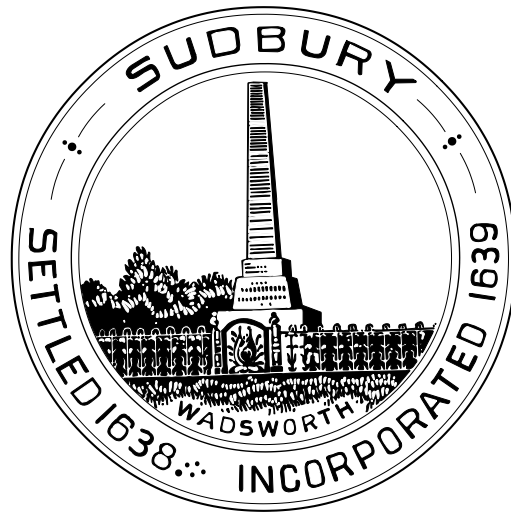


**TOWN OF SUDBURY**

**Final Report of the Strategic Financial Planning Committee for  
Capital Funding**



**January 6, 2015**

## I. Introduction

The Board of Selectmen created the Strategic Financial Planning Committee for Capital (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"<sup>1</sup>. 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 four out years of 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, we are 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 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

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<sup>1</sup> 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 on Tuesday. 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. That the five year CIP, along with the financing recommendations for the first year of the five years, be updated annually.
2. That the annual appropriation for capital spending that is paid from the annual tax levy be no more than \$4.85 million annually, excluding major projects. As a source for this number, this begins with the amount (\$4.7 million) appropriated in FY14, which the committee had previously discussed (but not voted) to use as a rough estimate of the ceiling on what could be spent each year over the next five years on capital needs other than major projects, assuming financing using the recommended funding policy, and enable the town to catch up on the backlog of capital needs that have built up after ten years of underinvesting. We now recommend that the estimated \$150,000 annual debt service for purchase of the Johnson Farm property be added to the \$4.7 million ceiling, as we did not foresee bonding this project out of the tax levy at the time we did last year's analysis and recommendations.
3. That the CIAC consider a capital exclusion, as well as potentially use of some of the Town's Free Cash, to fund the lengthy list of Small Projects (that is, those over \$50,000 but less than \$1,000,000), which totals approximately \$1.8 million in FY16 as well as two major pieces of DPW equipment, estimated at \$311,300. The Capital Funding Committee recommends that \$800,000 of Free Cash be used to fund those projects recommended by the CIAC, and if the total amount exceeds that amount, that a capital exclusion ballot question be put before voters to fund the difference. This would mean that if the CIAC recommended all projects on the \$1.8 million list plus the DPW equipment, they would recommend a \$1.3 million capital exclusion question along with use of \$800,000 in Free Cash. These projects would be presented as articles for Town Meeting consideration. NOTE: 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.

4. That Town Meeting be asked annually to appropriate the money that the Town receives from the lease of cell towers on DPW land (i.e. at the Transfer Station and potentially in the future behind the DPW building) to the newly established Special Stabilization Fund for Rolling Stock so that they may accumulate for funding future DPW Rolling Stock items. The Town receives approximately \$113,000 annually for the cell tower at the Transfer Station, and if a new tower is leased at the DPW building site, the Town might anticipate another \$50,000 from this lease. These funds could be requested to be dedicated annually for funding the Special Stabilization Fund for Rolling Stock.

### 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
Rolling Stock & Ambulance - 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
<b>Total Recommended</b>	<b>\$ 5,429,383</b>
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 they know will affect the need for and availability of funding for capital in the future. We list these considerations here, and understand that our analysis and recommendations for future years may change depending on what happens with these items that are not clear at this time.

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 we have projected debt service amounts and dates to facilitate discussions, but have not included them in our total capital spending for the CIP. Further, we 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. There is a 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. Restoring \$1.1 million to the Melone Gravel/Mining Fund from Free Cash. We don't know yet if the Board of Selectmen will recommend this step, or if Town Meeting will approve this. For the time being, we are using a working assumption that \$1.1 million in Free Cash is needed for this purpose.
4. Sale of existing Police Station. 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. Plans need to be developed to fund the newly created Special Stabilization Fund for Rolling Stock. As previously stated, the Committee recommends that cell tower lease payments for towers on DPW sites be appropriated to the Special Stabilization Fund for Rolling Stock. But the Committee also recommends that more work be undertaken to conduct analysis for how best to continually put sufficient money into this special stabilization fund so that when major rolling stock purchases are needed, they can be charged to this fund. The use of the lease payments will only generate half of what is projected to be needed. One approach is to request an override for Rolling Stock from the voters, with a set amount annually added to the fund. Our analysis shows that if at least \$400,000 is raised and put into the fund each year, it will provide sufficient stream of funding to allow timely replacement of the DPW trucks, heavy equipment and related equipment for the trucks (e.g. sander bodies, plows) as well as the next ambulance that will need to be replaced in FY19. Further, we recommend that the mission of the Special Stabilization Fund be amended to include future ambulances, but not fire engines or fire ladder trucks as those are so large an expense it would displace the DPW needs and undercut the goal of this special stabilization fund.
7. Policies on use of bonding. A question arose at the Special Town Meeting on which projects are recommended for bonding versus which might be recommended for other funding, including Free Cash. Our 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 we believe 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, we want to remind all readers of this report that there is 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.