



Memorandum

To: Board of Selectmen
Finance Committee

From: Martha White, Town Administrator

Date: Monday, October 5, 2009

Re: Revision to the Capital Plan Update of September 1, 2009

This memorandum services to update the original memorandum issued as a requirement of Section 5-7 of the Charter of the Town of Natick and Article 20, Section 2 of the By-Laws of the Town of Natick to issue an update to the Capital Plan on September 1st of every year. Since September 1st, several additional projects have come to light and a revisitation of the requests has been conducted resulting changes to the proposed items to be funded under Article 6 and Article 7 of the upcoming 2009 Fall Annual Town Meeting.

INTRODUCTION

Everything the Town does, from providing services to its residents and citizens, to equipping employees to effectively perform their jobs, requires the existence of certain basic physical assets. These assets include streets, water mains, parks, buildings, large equipment and technology. They must be purchased, maintained and replaced on a timely basis or their usefulness in providing public services will diminish. The Town's five-year Capital Improvement Program and annual Capital Budget are developed to ensure adequate capital investment in the Town's assets.

FIVE-YEAR CAPITAL PROGRAM

A five-year capital improvement program is an important part of any organization's overall budgeting process. Multi-year planning allows proper staging and sequencing of capital projects to even out spikes and make funding needs more predictable. Capital investment requirements can be uneven, sometimes involving unique large projects such as a new fire engine or a new school building. Other capital investment needs are recurring. We will continue to refine the five-year planning process to identify – and hopefully fund - an appropriate annual level of capital investment.

The Town Administrator's Financial Management Principles provide that a minimum of 8% of general fund revenues should be set aside annually to fund capital needs, inclusive of cash appropriations and the subject year's debt budget. Not included in this target are those capital improvements and equipment purchases funded through debt exclusion, Enterprise Fund or Intergovernmental or other

sources such as Chapter 90, mitigation funds, etc. Ideally, this target should provide for a minimum of 10% of general fund revenues set aside in support of annual capital budget given the size of the Town's capital assets, however, the Town's current fiscal situation makes such a target unrealistic. Even with the planned capital requests at the upcoming 2009 Fall Annual Town Meeting, Natick will not meet even the recommended 8% target this year.

Capital Planning - Town Administrator Recommended Policy **thru 2009 Fall Town Meeting**

The numbers shown below reflect ONLY General Fund Revenues & Expenditures.

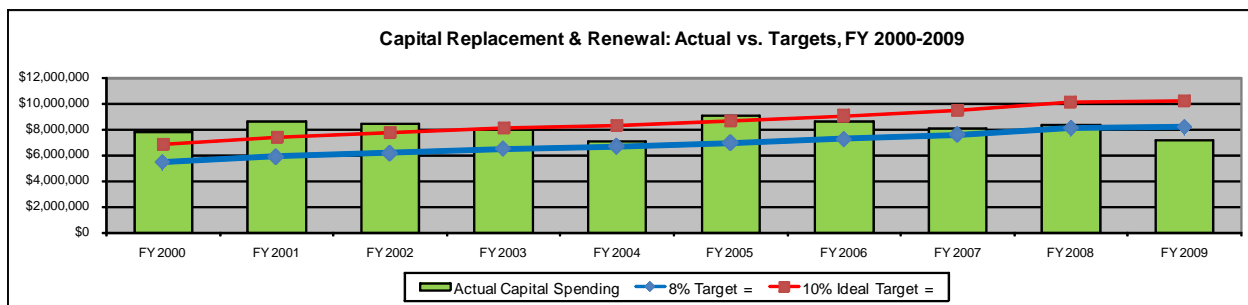
	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Total Revenues	\$ 90,521,793	\$ 94,546,948	\$ 100,954,999	\$ 102,021,869	\$ 101,710,415
Target:	8%	8%	8%	8%	8%
8% Target =	\$ 7,241,743	\$ 7,563,756	\$ 8,076,400	\$ 8,161,750	\$ 8,136,833
Ideal Target:	10%	10%	10%	10%	10%
10% Ideal Target =	\$ 9,052,179	\$ 9,454,695	\$ 10,095,500	\$ 10,202,187	\$ 10,171,042
Actual Capital Spending					
Cash	\$ 680,647	\$ 906,128	\$ 1,077,378	\$ 293,900	\$ 300,940
Debt Service	\$ 7,993,438	\$ 7,213,658	\$ 7,243,778	\$ 6,915,198	\$ 7,158,758
Total Capital Spending	\$ 8,674,085	\$ 8,119,786	\$ 8,321,156	\$ 7,209,098	\$ 7,459,698
Total Cap. Spending As %	9.58%	8.59%	8.24%	7.07%	7.33%

Notes:

FY 2006-2009 columns reflect actual Town Meeting Appropriations and borrowing authorizations; some projects were subsequently deferred.

FY 2010 column includes actual appropriations from Spring and planned appropriations from Fall Annual Town Meetings.

This continues a trend over the last 10 years concerning capital investment. FY 2000-2009 Capital Investment is shown below:



Traditionally, there are four potential funding sources for financing the Town's capital investments:

- **Available Funds (Free Cash)** – The town regularly appropriates monies from the general fund and the enterprise funds to finance short-term, small capital investment projects. Examples of available funds are free cash and enterprise fund retained earnings.

- **Stabilization Fund** – Appropriations out of the stabilization fund can be used for any purpose, but do require a higher threshold (2/3 of Town Meeting) to be used as a funding source for operating or capital costs.
- **Debt Service** – The Town has traditionally financed large capital projects or purchases through borrowing. The resulting debt obligations are appropriated under the General Fund Tax Levy (either within the levy limit or from a voter approved debt exclusion) or from Enterprise Funds.
- **Other Sources** – The Town uses dedicated state aid and grant funding to finance capital investment when these funds are available.

Unfortunately, economic necessity has limited available funding from most of these sources and forced staff to recommend a significantly reduced capital plan for FY 2010. We hope that the strides we have made over the last few years can see us through until such time that the fiscal health of the Town and the Commonwealth improves to allow for adequate capital investment.

FY 2010 CAPITAL BUDGET & FY 2010-2015 CAPITAL IMPROVEMENT PROGRAM

The FY 2010-2015 Capital Improvement Program is attached on the following pages. All told, there are requests for over \$63,000,000 of capital improvements, equipment and infrastructure. This amount of money is necessary to maintain the hundreds of millions of dollars the Town has invested in its properties, equipment and operations.

At the 2009 Spring Annual Town Meeting, slightly more than \$1,800,000 of capital equipment and improvements was approved. These are shown below.

Capital Equipment - 2009 Spring Annual Town Meeting

<u>Item #</u>	<u>Department</u>	<u>Item</u>	<u>Funding Source</u>	<u>Amount</u>
1	DPW	Replacement of Streetlights	Tax Levy	\$ 25,000
2	Fire	Replacement of Fire Hose	Tax Levy	\$ 25,000
3	Police	Replacement of Police Radios	Tax Levy	\$ 10,400
4	Police	Replacement of Police Firearms	Tax Levy	\$ 17,600
5	Police	Replacement of Police Cruisers:	Tax Levy	\$ 75,560
6	Water/Sewer	Replace W-30 (Sewer Vac/Truck)	Borrowing	\$ 250,000
Total Appropriation under Article 12				\$ 403,560
Tax Levy Funding				\$ 153,560
Water/Sewer Borrowing Funding				\$ 250,000
Total Funding for Appropriations under Article 12				\$ 403,560

Capital Improvements - 2009 Spring Annual Town Meeting

Item #	Department	Item	Funding Source	Amount
1	Water/Sewer	Upgrade SCADA:	Retained Earnings	\$ 100,000
2	Water/Sewer	Sewer Main Relining	Art. 9 of 2006 SATM	\$ 150,000
3	Water/Sewer	WTP/Elm Bank Security Rehab	R.E./Art. 9 - 2006 SATM	\$ 100,000
4	Water/Sewer	Replace Springvale #1 Well	Borrowing	\$ 250,000
5	Water/Sewer	Broad's Hill Town Forest Renovations	Borrowing	\$ 500,000
6	Water/Sewer	Sewer Pump Station Replacement & Upgrade	Borrowing	\$ 300,000
Total Appropriation under Article 13				\$ 1,400,000

Funding Sources

Water/Sewer Enterprise Fund Retained Earnings	\$ 187,696
Article 9 of the 2006 Spring Annual Town Meeting	\$ 162,304
Water/Sewer Borrowing	\$ 1,050,000
Total Funding for Appropriations under Article 13	\$ 1,400,000

Even as recent as a year ago, efforts were being made to strengthen annual capital spending and dedicate more resources annually towards capital projects. Unfortunately, given the state of the economy and the significant financial pressures facing the Town, it is not possible to sustain that progress at this point in time. The \$1,800,000 of capital projects approved in spring represented the most critical projects and equipment necessary for the continued operation of General Fund and Water & Sewer Operations. Important projects for both the Public Schools and the General Government cannot be funded at this point in time because the additional debt service costs should not be incurred in the current fiscal climate.

Those projects that are being deferred, however, cannot be forgotten because failure to replace and renew capital assets in a timely manner leads to costlier replacements in the future. We continue to hope that this deferral is only for one-to-two years – and that the capital equipment and infrastructure of the community can sustain longer than previously intended. As funds become more available, replacing capital items on a more frequent and cyclical basis will be a key to maximizing the protection of Natick's assets.

Proposed Capital Budget at the 2009 Fall Town Meeting

When originally issued on September 1st, 2009, the Proposed Capital Budget for the Fall Town Meeting had a different set of requests than those presented on the following pages. Since September 1st, staff on the school and municipal departments have spent time analyzing critical needs and determined that two projects – two (2) replacement cruisers at \$75,560 and \$15,620 worth of door replacements at DPW were not essential to replace at this time. Instead, four new projects have been added. All of the projects being proposed for funding at the 2009 Fall Town Meeting are done so under the same overarching principle as those in spring: capital projects which are the most critical and essential for the continued operation of the Town.

Proposed Item**Amount****Funding Source****Replacement of Engine 1 with an Engine equip. w/Ladder**

This request would replace Engine 1 and allow the decommissioning of two of the oldest pieces of Fire apparatus - a 1984 Ladder Truck and a 1985 Pumper (engine) with the purchase of a combined unit. Funding is proposed through a re-designation of a previous borrowing authorization (\$400,000) and an existing set-aside of Mall Mitigation funds (\$250,000) designated for this purpose.

\$ 650,000

Borrowing Authorization
Mall Mitigation**Memorial HVAC Replacement**

This request would replace the HVAC units on top of the Cafeteria and Gymnasium at Memorial School. The request is being made at the Fall 2009 Town Meeting to coincide with the \$780,000 project to replace the roof at Memorial School set to begin in late Spring 2010. Replacement of these HVAC units will allow for greater efficiency, air quality and ventilation in those sections of the building and as importantly preserve the integrity of the new roof as both project will concur simultaneously.

\$ 165,000

Borrowing Authorization

Eliot School Doors

This request would replace the passage doors at the Eliot Montessori School. This request is needed to improve energy efficiency at a Town owned property and to replace doors which have become severely worn over the years. Due to the historic nature of the structure, doors will be replaced with exact duplicates, which will provide better energy efficiency. This request includes removal, disposal of the old doors and installation of the new.

\$ 27,500

Free Cash

Replacement of H-1

This request replaces a 2000 vehicle used by the Supervisor of the Highway Division. The vehicle is used 24/7 for meetings, checking on road crews, wintertime operations, construction projections and emergency response. Nearing the end of its useful life, the underbody has severe rot and the chassis body is weakening. The vehicle has been on the replacement plan since 2005.

\$ 26,000

Free Cash

Street Light Replacement

In Spring 2009, Town Meeting approved the same amount for streetlight replacement, but still far short of the annual requested amount of over \$80,000 annually. The Administration, has recently been exploring a program to convert existing street lights to LED - powered lights which are far more efficient. We intend to undertake a pilot program at various locations throughout the community to determine if this new lighting provides adequate illumination. Appropriating \$25,000 will bring the total amount to \$50,000 this fiscal year.

\$ 25,000

Free Cash

Replacement of E-2

This request replaces E-2, a 2001 mini-van with 61,000 which is utilized by the DPW Engineering Division daily to conduct fieldwork, surveying, GIS mapping and a variety of other tasks. The van has over 75,000 miles on it and has reached the end of its useful life. The body is rusting away and holes have developed in several places. The vehicle has been on the replacement plan since 2005.

\$ 23,000

Free Cash

Continued on page 6

Proposed Item

Amount

Funding Source

<p>Passageway Doors at DPW Facility Several steel doors at the DPW facility have become rotted, rusty and no longer work properly. In some cases they do not even close, which poses a security problem at the DPW. Originally a request for seven doors, this request would replace approximately 3 doors, thereby improving energy efficiency and reestablishing proper security at an important Town-owned property.</p>	\$ 12,880	Free Cash
<p>Replacement of LF-19 This request replaces a frontline 2001 Hustler Z lawn mower. It mows many fields used daily by the Recreation Department and the Natick Public Schools. Replacement of this lawnmower is essential in Fall 2009 so as to have available for use beginning in Spring 2010.</p>	\$ 13,000	Free Cash
<p>Replacement of Dumpsters Deferred from Spring, the DPW annually has requested \$10,000 to replace rotted and unsafe dumpsters at municipal and school facilities. This ongoing capital equipment purchase should be made regularly, as it and is important to maintain safe and hygienic trash collection on municipal properties.</p>	\$ 10,000	Free Cash
<p>Replacement of Guardrails Deferred from Spring, the DPW annually has requested \$10,000 to replace unsafe guardrails along various streets and highways within the Town. This ongoing capital purchase should be made regularly to ensure that motorists are properly protected along Natick roadways.</p>	\$ 10,000	Free Cash

Total	\$962,380	
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The proposed funding summary for the projects listed above is as follows:

2009 Fall Annual Town Meeting: Capital Equipment

Article 6: Capital Equipment

General Fund Capital	\$ 797,380	
Total Appropriation Article 6	\$ 797,380	
Free Cash	\$ 147,380	
Mall Mitigation Funds	\$ 250,000	
Borrowing Authorization	\$ 400,000	
Total Funding for Appropriations under Article 6	\$ 797,380	

2009 Fall Annual Town Meeting: Capital Improvements

Article 7: Capital Improvements

General Fund Capital	\$ 165,000
Total Appropriation Article 7	\$ 165,000

Borrowing Authorization	\$ 165,000
Total Funding for Appropriations under Article 7	\$ 165,000

Closing

Unfortunately, the funding of those items designated for funding via free cash is dependent upon two factors: timely certification of Free Cash prior to the 2009 Fall Annual Town Meeting and the availability of a sufficient amount of Free Cash to fund those projects. Although the former is achievable, the latter will not be known with certainty until the Department of Revenue has certified Free Cash.

The FY 2010-2015 Capital Improvement Program is attached on the following pages. Projects funded at the 2009 Spring Annual Town Meeting are designated with a note next to the item description.