
MEMORANDUM - OFFICE OF THE TOWN ADMINISTRATOR

TO: C. Terenzini
FROM: Mike Branley, Town Fellow *Mike*
RE: Capital Financing Plan
DATE: October 20, 2011
CC: H. Davis

The Task

After completing my Reserve Fund Analysis and receiving feedback from the Board of Selectmen, you tasked me with making an effort to put my report into practice. Specifically, I was instructed to:

- Fund the capital projects ranked by the Capital Improvements Committee with but few exceptions;
- Fund other non-discretionary liabilities (such as current leases);
- Build the reserve funds (if not annually, at least in the aggregate) in accordance with the ARCs, Floors, and Targets laid out in my report Establishing Fiscal Wellness; and
- Keep the annual increased tax levy spent on capital below 5% each year (ideally below 4.50%).

I was instructed to fund all Tier 1, 2, and 3 capital projects with the following exceptions based on what you are willing to recommend:

- More than one police cruiser will not be recommended in any given year. To rectify this variation with the CIPC spreadsheet (specifically in 2013) I have spread out police cruiser schedule based on use and mileage to have one replaced annually;
- No energy savings projects will be recommended piecemeal; all energy savings projects should be bundled, put to bid for an Energy Savings Company (ESCO), and then repaid from the operating savings; and
- No School District projects were funded in this effort as they should be included in the District's budget, even though are included on the CIPC spreadsheet.

When having a discussion during this process with Chief Bengston and Road Agent Kinmond it became apparent that if kept on their replacement schedules, DPW pick-up trucks could be refurbished and transferred to the Fire Department to replace Utility 1 and Forestry 2 (Forestry 1 was a surplus vehicle and will not be replaced when it goes out of commission). This coordination would be more cost effective than continuing to maintain these vehicles (which date back to 1986 and 1985 respectively) or buying brand new replacements. The projected cost of a heavy refurbishment and retrofitting the vehicles to fit their new role at the Fire Department is \$25,000 each (as opposed to a \$55,000 new replacement). I do not believe either of these pieces of equipment were submitted to the CIPC initially for the 2012-2017 cycle because the Chief was trying to minimize his capital requests, however I believe he has submitted these updated requests to the CIPC.

Based on these discussions in addition to updated replacement costs and schedules presented to the CIPC, I have attached updated fleet and reserve fund spreadsheets for the Firefighting Equipment Fund and the Public Works Equipment Fund.

When funding the trust funds, the following alterations to my report were made based on our discussions and feedback from the Board of Selectmen:

- The Dry Hydrant Fund's balance will not be reduced and will have a small amount appropriated annually;
- The purpose and name of the Police Department Communications Equipment Fund will not be changed and this fund will not be used for cruisers. This fund will have a small amount appropriated annually;
- Contributions to the Playground Improvement Fund will not be recommended; and
- The ARC for the Appraisal Fund was altered based on you clarifying how the Vision contract is funded.

Other aspects of the trust funds in this financing plan worth noting are:

- The Communication Technology Fund, Personnel Liability Fund, and Community Substance Fund will be level-funded every year of this cycle; and
- The Milfoil trust fund's appropriation (\$200,000 in 2011) will be decreased by \$5,000 annually.

One of the assumptions that I followed when funding the capital program was that the reserve funds, specifically the DPW and Fire Equipment Funds, would be used as "wash accounts." In essence, this means that the ARC is appropriated each year as laid out in the Trust Fund Report and then however much is needed to be expended to keep the tax rate from growing too high is expended. For example, if the ARC for the Fire Equipment Fund was \$100,000 and \$100,000 needed to be expended, those actions would be taken separately rather than one action to fund the \$100,000 project straight from tax levy. This gets the Selectmen and the community used to

appropriating the ARC to the funds each year, even though in some cases the fund nets a loss after the expenditure.

Another assumption is that for some funds, such as Lee's Mills Fund, the Historic Buildings Fund, the Dry Hydrant Fund, and to some extent the Municipal Building Fund, it is nearly impossible to accurately predict when they will be expended. As such, I have budgeted for the ARCs to the extent that I was able even though in many cases this led to the funds rising higher than their recommended ceilings down the road (I reasoned that trying to guess how much would be expended was just setting myself up to fail). As time goes on, adjustments should be made to reduce these contributions if the funds grow to the ceilings and to distribute that money to other funds in greater need.

The Finished Product

Attached you will find the spreadsheets that lay out my recommendation for how to fund the Town's capital needs and also the trust funds. I have tried to make these documents easy to follow by aligning similar items and funds whenever possible.

As you can see from the "End of Year Fund Balances..." page, by 2017 I was able to reach the recommended Floors for all but two funds (Firefighting Equipment and Municipal Building) and was able to appropriate the ARC for every fund but one (the Municipal Building Fund). I was able to achieve this while keeping the average annual increase in tax levy spent on capital at 4.36%, well under the 5% limit and the 4.5% goal. I have also linked these spreadsheets electronically so that when changes are made in one year's appropriation to a reserve fund it changes the year end balances on that page and the left side of the next year's page. This amenity will facilitate alterations as they will inevitable be made during the course of this plan.