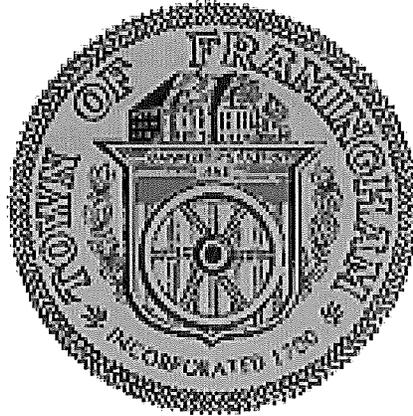


Town of Framingham
FY2014-2019 Capital Budget Recommendation



Moving Framingham Forward: Investments in Infrastructure
and Improving Town Assets

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Executive Summary

The FY14-19 Capital Budget recommendation is the result of a long term approach to managing needed investment in infrastructure and assets of the Town while maintaining financial flexibility. The FY14 capacity for incurring debt and the debt service operating cost would have allowed the approval of all requested projects; the near term impact on FY15 and FY16 would have required substantial single year increases in debt service. In order to relieve pressure on the incremental increase in the operating budgets for those years, the number of projects approved is more moderate. Even so, the FY14 Capital Budget is a more significant investment in roadway and sidewalk improvements, school building repairs, upgrades to Cushing Park, improvement to storm water systems, handicapped accessibility repairs and improvements, repairs to historic town owned buildings and urgent equipment needs.

Capital Budget total recommendations by Fund:

- General Fund: \$12,684,285
 - \$4,386,261 deferred
- Sewer Enterprise Fund: \$26,370,000
 - \$4,345,000 deferred
- Water Enterprise Fund: \$5,269,630
 - \$970,000 deferred

FY14 Capital Budget General Fund Recommendations by Department

	Approved	Deferred	Requested
Building Services	\$336,852	\$0	\$336,852
Fire Department	\$361,503	\$0	\$361,503
Library	\$418,563	\$183,032	\$601,595
Loring Arena	\$159,726	\$0	\$159,726
Parks & Recreation	\$849,495	\$584,349	\$1,433,844
Engineering	\$1,170,000	\$0	\$1,170,000
Fleet & Facilities	\$106,000	\$0	\$106,000
Highway	\$4,252,780	\$2,215,880	\$6,468,660
Sanitation	\$321,500	\$201,300	\$522,800
School Department	\$3,605,300	\$457,700	\$4,063,000
Sealer of Weights and Measures	\$33,579	\$0	\$33,579
Selectmen / Town Manager	\$200,000	\$0	\$200,000
Technology Services	\$443,987	\$0	\$443,987
Town Owned Buildings	\$425,000	\$744,000	\$1,169,000
	\$12,684,285	\$4,386,261	\$17,070,546
	74%	26%	

Highlights for FY14:

- \$3.2 million for roadway repairs
- \$1.1 million for handicapped accessibility in building entrances and sidewalks
- \$665,000 for the construction of Children's Grove play area at Cushing Park
- \$943,947 for town wide technology improvements
- \$1.4 million for storm water system repairs
- \$769,975 for energy efficiency improvements and building mechanical repairs
- \$380,000 for historic building preservation
- \$484,780 for efficient snow removal and roadway construction equipment
- \$200,000 for traffic calming measures
- Debt service calculations assume the passage of the new Branch Library project at a cost of \$8.2 million and the corresponding MBLC grant (\$4.2 million, net Town cost \$3.8 million)
- \$17.2 million for the Worcester Rd Pumping Station Elimination project (sewer)
- \$6.5 million for the Baiting Brook Sewer Improvement project
- Warren Rd and Prindiville Water Main

Long Term Capital Needs FY15-19

The capital project lists for FY15 through FY19 represent a longer term look at the capital needs of Town Departments. The larger Departments, including DPW, Schools and the Park and Recreation Division have 20 year capital plans of which this five year look is a part. Debt Service estimates are also included in this package; specifically in the debt service section, broken out by fiscal year. The major projects are highlighted in blue for the General Fund.

Impact on Debt Service

The FY14 debt service impact for all three funds is presented in three tables included on the first two pages in the Debt Service tab of this package. These tables project debt service for the approved projects in FY14. The projection then assumes that all of the capital requests in the future are approved in order to illustrate the full impact of all the capital needs on the operating budget. The FY14 budget defers almost \$4.4 million in capital investment out of concern for the out year impact on debt service in the operating budget of all three funds. Individual debt service projection sheets are included for each year; substantial projects are highlighted for years FY15 through FY19.

Several of the future projects have the opportunity for grants which will offset the cost of debt service. Debt service for the proposed new branch library is included in the amounts projected for debt service in the General Fund. The total project cost is estimated at \$8.2 million, and assumes a \$4.2 million grant from the Massachusetts Board of Library Commissioners (MBLC). Therefore debt service is calculated on a Town cost of \$3.8 million. Debt service is not offset by Foundation fundraising for this projection;



therefore any fundraising generated for this project will reduce the amounts projected here. The Foundation has made a commitment to raise \$600,000, but again that is not factored into this debt service projection.

Two major school projects are on the schedule for this budget plan. In FY16, \$48,000,000 is included for the Fuller/Farley School project. In FY19, \$20 million is included for the next major school renovation. Both assume a 40% MSBA funding offset which reduces the impact on debt service. The School Department capital plan also includes a phased school roof repair plan for the entire district. Each year includes between \$1.5 million and \$2.1 million for school roof repairs. No MSBA funding is anticipated in the projection of debt service.

In the past the town has borrowed from the State Safe Water Drinking Act and Clean Water Act Funds to reduce costs for water and sewer projects. These funds lend money at a rate of 2%. However, the recordkeeping and contract paperwork plus the administrative management time make this option unwieldy. The current municipal market is as competitive without the additional administrative burden.

The Town policy on debt service as a percentage of the General Fund budget creates a cap of 5%. The Summary Debt Service chart at the beginning of the Debt Service section of this package clearly shows that we begin to exceed that ceiling in FY17 if we approve all of the projects requested in FY15, FY16 and FY17. That pressure is a major factor in the decision to defer some of the General fund projects for FY14. However, over the next several years there are very costly School building renovation projects that overwhelm the debt service policy capacity and outpace even the total cost of this annual capital budget. Generally, the Framingham Schools are bumping up against 50 years of age and will require major renovations that will cost at least \$20 million per building. In FY16, the Fuller/Farley complex renovation is estimated at \$48 million alone. We need to start the conversation about authorizing the bonding of these projects outside the Town debt service policy limit and outside the tax levy limit; voting these school renovations as a debt exclusion. Otherwise these single school projects will eliminate the annual capacity to invest in any other Town asset. With 14 school buildings the cost will be at least \$308 million, not including inflation or the need to increase the size of any individual building. As these school projects add up the Town could hit its legal debt limit of 5% of the total value of the Town.

Extended Borrowing Terms

State law allows municipalities to borrow for longer terms for water and sewer utility infrastructure. Massachusetts General Law, Chapter 44 section 8 paragraphs (5) and (6) allow for a maximum term of 40 years for water pipes and water treatment plants. The same law and section but paragraph (15) allows for 30 years for sewer pipes and treatment plants. Using a 30 year term for both water and sewer, the chart below compares the annual debt service amounts for the FY14 project lists versus the 20 year terms included in the debt service table in this package. Give the different sizes of the water and sewer capital budgets; this indicates the magnitude of the difference in annual debt service amounts of a simple 10 year term change. Of course, the longer borrowing term means additional interest over the extended



10 years. More analysis will be provided on this option in the near future in order to provide appropriate information for decision-making purposes.

FY14 Recommended Capital Project Debt Service

	FY14	FY15	FY16	FY17	FY18	FY19
Water 20	\$100,123	\$509,322	\$485,832	\$474,088	\$462,343	\$450,598
Water 30	\$100,123	\$443,406	\$424,925	\$415,686	\$406,445	\$397,205
Reduced Annual payments	\$0	-\$65,916	-\$60,907	-\$58,402	-\$55,898	-\$53,393

	FY14	FY15	FY16	FY17	FY18	FY19
Sewer 20	\$501,030	\$2,365,410	\$2,261,795	\$2,209,989	\$2,158,181	\$2,106,374
Sewer 30	\$501,030	\$1,948,360	\$1,876,440	\$1,840,482	\$1,804,523	\$1,768,563
Reduced Annual Payments	\$0	-\$417,050	-\$385,355	-\$369,507	-\$353,658	-\$337,811

Use of Free Cash in the General Fund Capital Budget and Retained Earnings on the Enterprise Fund Budgets (Water and Sewer)

The Board of Selectmen policy for Free Cash allocates a 20% share of the net free cash from the prior fiscal year to be used to pay “cash” for capital items. In prior capital budgets the Town has used that allocation to offset the borrowing need for one or two specific projects. The annual amounts have ranged from \$53,164 to \$362,687. In FY14 that allocation would be \$393,710. The current Free Cash plan would increase the annual capital allocation to \$500,000 by FY19. Reducing the borrowing amounts is a good cost reduction strategy when borrowing costs are high. However, at this time borrowing costs are very low; money is “cheap”. This Capital Budget recommendation does not recommend using any free cash to offset borrowing for FY14. Instead we recommend the capital free cash allocation be set aside as a restricted amount of General Fund Balance. If it is set aside between now and FY19, it creates a fund of \$2.3 million. This gives the Town the financial flexibility to do a number of things with those funds to manage future budgets: (1) create a larger “cash” pool to apply to the substantially more expensive projects in FY16 and FY19; (2) provides resources to manage other budget cost drivers such as substantial decreases in state aid or extraordinary changes in property valuation economics.

Retained earnings are the Enterprise Fund equivalent of Free Cash. There is no policy to allocate retained earnings to the Water or Sewer Capital Budgets, but retained earnings can only be used for expenditures in the fund. Therefore in the past the Town has used retained earnings to offset the cost of borrowing for water and sewer capital projects. Generally it has been design or equipment costs that are limited to five year borrowing terms. Using the same “cheap money” logic, we recommend using no retained earnings in the FY14 recommended Water and Sewer Capital Budgets. The recommendation is

to hold aside retained earnings for rate mitigation which may be caused by other budget factors including drops in water and sewer consumption, increases in the MWRA assessment or emergency operating cost increases.

The FY14-19 Capital Budget is a comprehensive report on the capital needs of the entire Town. The recommendation contained within is a thoughtful approach to needed capital investment without over extending Town finances both with a short term view and a longer term view. As always, Department and Division Heads, the CFO and Town Manager's Office are available for discussion and questions.

