## How can we keep pace?

**Developing a process for making capital investments in (continuously) difficult financial times** 

Presented by: Christopher J. Ketchen Deputy Director of General Government Town of Wellesley



#### Agenda

- Context
- Process
- Recommendations

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#### **Economic Context in 2012**

- Economy is still struggling
- 2000's called "lost decade" for stock market
- Both US and Massachusetts unemployment rates more than double 2000 levels
- Among top stories on MMA homepage "MTF report: Municipalities mired in worst 2-year stretch in 3 decades"
  January 21, 2012 Massachusetts Municipal Association Annual Meeting



#### Infrastructure Context in 2012

- Construction/equipment needs often take second priority to operating budget
- Growing claims against resources from pension, healthcare and other mandates
- ASCE gives US an overall grade of "D" for meeting America's infrastructure needs

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#### Conclusion

- America, generally, is not keeping pace with capital needs
- Governments can, and many do, defer capital work in favor of maintaining programs or in order to meet other obligations
- While deferment relieves some short-term claims on funding, backlog of needs continues to grow

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#### What is Capital?

- Communities define capital differently
- In Wellesley, capital is generally regarded as any project or equipment purchase:
  - > \$5,000
  - Useful life beyond 10 years
  - Any building construction project >\$25,000 is subject to oversight by Permanent Building Committee



### Why is it important to plan?

- Large financial obligations
  - May require borrowing or substantial use of reserves
  - Unplanned projects place additional pressure on programs
- May span multiple fiscal years
- Required to fulfill mission critical functions (buildings, systems, equipment)

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#### Wellesley's "Planning Maxims"

(From Hans Larsen's "Best Practices: Financial Planning" in City & Town, August 2008)

- 1. Focus on environmental changes; set priorities based on level of financial risk
- 2. Gain buy-in for your strategy
- 3. Simplify
- 4. Create a dashboard
- 5. Emphasize the need for accountability

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### Planning Process, step-by-step\*

- 1. Organize and prepare for capital planning;
- 2. Prepare an inventory of existing facilities;
- 3. Determine the status of previously approved projects;
- 4. Prepare project request;
- 5. Develop project evaluation criteria;
- 6. Evaluate project requests;
- 7. Establish project priorities
- 8. Assess financial capacity and
- 9. Develop a CIP report with financing plan

\*Process described by Maureen Valente in Chapter 11 of the Finance Committee Handbook (page 11-3)



# Planning Process: Habits and other shortcomings

- Loose association with comprehensive or strategic plan (if any)
- Affordability analysis tied as much to the current year capital budget as the multi-year capital plan
- Operating pressures "crowd-out" pay-as-you-go capital outlays
- Out-year projections are imprecise

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#### **Capital Plan Execution**

- Need to ensure that sufficient capacity exists to complete projects (staff, contract admin., etc.)
- Need to follow appropriate procurement laws
  - Supplies & Services: MGL c.30B (Uniform Procurement Act)
  - Designer Selection: MGL c.7, §§38A½ O
  - Vertical Construction: MGL c.149
  - Horizontal Construction: MGL c.30, §39M

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#### **Modest recommendations**

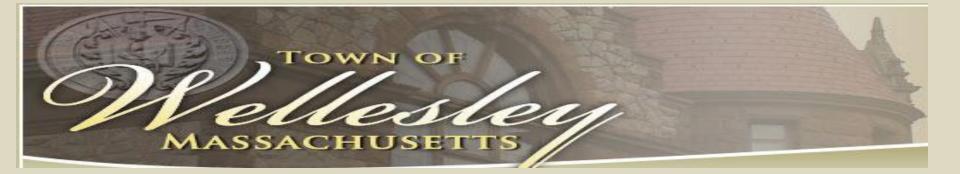
- Assess the condition and needs of facilities and other infrastructure
- Identify and target benchmark levels of infrastructure reinvestment (e.g. % of replacement value)



### Modest recommendations (continued)

- Develop policies that establish a fixed percentage of revenue for capital spending (and stick to it!)
- Develop policies around use of available funds
  - Special Purpose Stabilization Fund (for Capital)
  - Community Preservation Act
  - In Wellesley: Debt Exclusion for any new construction

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#### **QUESTIONS?**

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