

# **How can we keep pace?**

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

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## *Agenda*

- Context
- Process
- Recommendations



## ***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"



## ***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



## ***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



## ***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)



## ***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





## ***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



## ***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



## *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



## *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





## ***QUESTIONS?***