

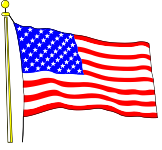
Capital Planning in Arlington:

A 32 Year Learning Process and Still Evolving

Association of Town Finance Committees

Charles Foskett

October 26, 2019



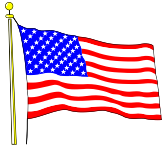
Agenda

- Arlington Membership and Organization
- Planning, Acquiring and Managing Assets
- Defining Capital Assets
- Capital Planning Objectives
- Capital Planning and Annual Budgets
- Financing Strategies
- Budget and Plan Ownership
- Getting Buy-in Across Constituencies



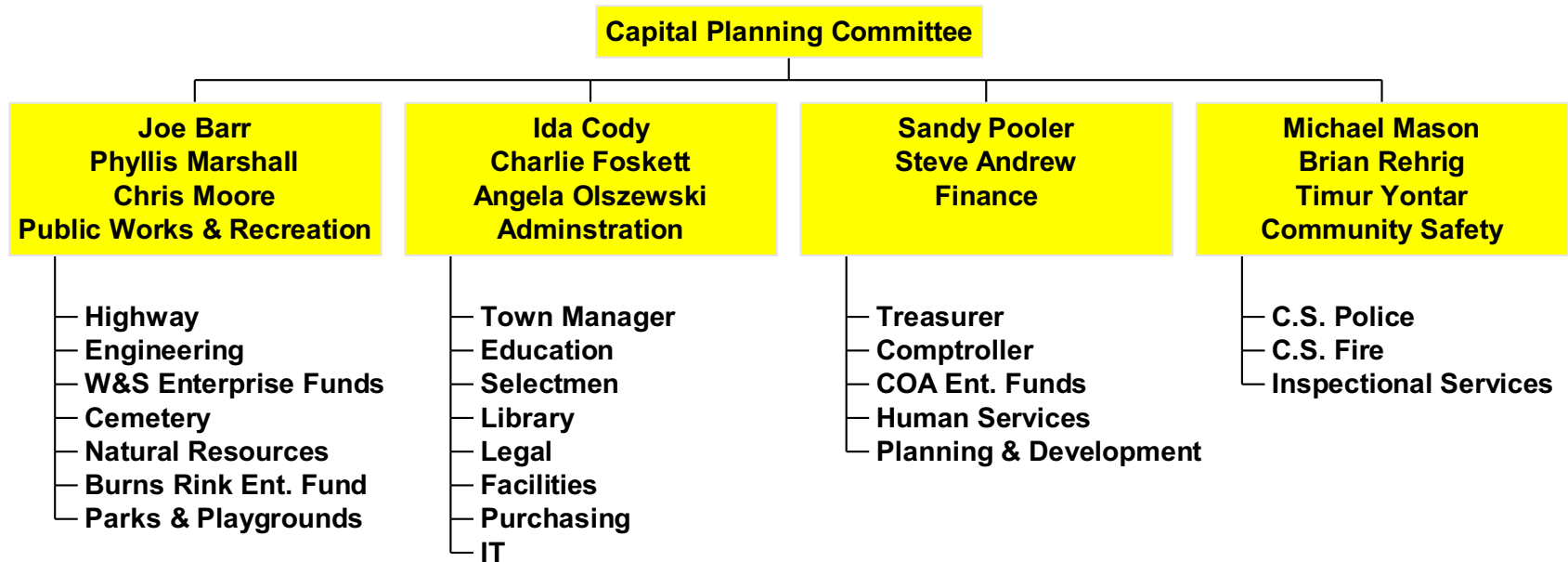
Committee Membership

- Steve Andrew - Citizen Appointee, Secretary
- Joe Barr – Secretary, Citizen Appointee
- **Ida Cody - Comptroller**
- Charlie Foskett - Finance Committee Designee
- **Phyllis Marshall– Treasurer**
- **Michael Mason - School Department Designee**
- Chris Moore - Vice Chair, Citizen Appointee
- **Sandy Pooler - Town Manager Designee**
- Angela Olszewski - Citizen Appointee
- Brian Rehrig – Citizen Appointee, Vice Chair
- **Julie Wayman– Management Analyst**
- Timur Yontar - Chairman
- Many towns do not include Town staff members in their capital committee
- Arlington considers staff membership critical to capital planning success:
 - Town staffers know how things really work
 - Having Town and School at the table insures a high degree of cooperation
 - Having town/school management and financial professionals involved in the process gives department managers comfort that they are getting a fair hearing
 - Having strong citizen, Town Meeting Member and FinCom participation gives Town Meeting Comfort that taxpayers money being allocated for big expenditures is given close scrutiny and careful planning



Arlington CPC Organization 2019-2020

Capital Planning Committee Organization



- As Arlington's Management Analyst, Julie Wayman provides coordination and support from the Town Manager's office.
- Subcommittees are organized so that Town staffers do not review their own departments, rather they have to pass muster from other managers
- Members stay with subcommittees for multiple years, gaining subject matter expertise and providing institutional memory for the whole Committee
- There are two internal activity committees on software and communications



Planning

- The late and revered Yogi Berra: “It's tough to make predictions, especially about the future.”
- “...about the future”:
 - What is it we will need?
 - When will we need it?
 - Where will we get the funds to pay for it?
 - Who will manage its use?
 - Who will maintain it?



Capital Challenges

- Municipal projects can be BIG
 - Projects can take a long time
 - Projects can be very expensive
 - Projects are always “an emergency”
- Most projects can be planned years ahead and financed from within Proposition 2½
- Today we will discuss how to do this

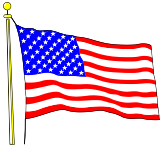


Sisyphus Building a New Library 700 BC



Three Core Reasons for a Capital Plan

- Money:
 - It can help you generate funding for your projects
- Citizen Services
 - Whether its roads, schools, safety or rolling stock, citizens receive municipal services via infrastructure pathways
- Employees
 - Quality government relies on quality employees
 - Employees need good tools to do their jobs:
 - Firemen need fire trucks
 - Teachers need schools
 - Service desks need computers and networks



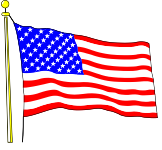
Why Capital Planning?

- Most town budgets are primarily limited by Prop 2½
- Rarely will budget growth, even in high growth towns, support large jumps in expenditures
- Taxpayers, Selectmen, other Elected Officials and Town Meetings don't like financial surprises
- Large capital expenditures for infrastructure and equipment are often not supportable in a single budget year
- Failure to maintain infrastructure and capital assets can result in reduced services, citizen anxiety and even injury or death to Town workers or the public
- Employees deliver services, but the delivery platforms are the tools, equipment and infrastructure of the capital base from which government works



Capital Planning

- Capital Planning sets and meets long-range expectations for current and future capital expenditures.
- Capital Planning sets and meets expectations for Town executives and management, the Finance Committee, Town Meeting and citizens.
- Successful Capital Planning reduces or eliminates uncertainty in the acquisition of capital assets.
- Successful Capital Planning facilitates postponing some capital expenditures in favor of others as part of the planning process.
(Abraham Maslow, “Psychology of Being”, 1970: Delayed gratification)
- Successful Capital Planning gives Town Meeting and voters comfort while spending large sums of taxpayers money.
- Successful Capital Planning helps improve the Town’s bond rating
- *Choose a good database tool to maintain record*



Maintenance vs. Capital Planning

- Both are required for good service delivery
- Both begin with an asset inventory
- Maintenance is a repeating operating expense characterized by regular frequency and modest cost
- Capital is infrequent and higher cost
- A good maintenance plan reduces or defers capital expenditures
- An outside service such as On-site Insight (<http://www.on-site-insight.com/services/capital-needs-assessments>) can help in creating a maintenance plan and a capital replacement schedule



Capital Assets in Arlington

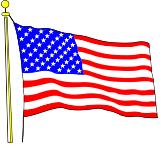
- Dollar value – greater than \$3,000 (or \$x,000)
- Tangible nature: Identifiable entity or large group of entities
- Depreciable life – usually three years or more
- Asset class: characteristics defined by Mass General Law (<https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section7>)
- Another reference: <http://www.mass.gov/dor/docs/dls/publ/misc/cip.pdf>





Examples of Capital Assets

- Rolling stock: Fire trucks, police cars, DPW loaders
- Buildings: Transfer station, school building
- Some office equipment: voting machines, copiers
- Outdoor assets: Parks, fields, gardens
- IT: Computers, servers, communication systems.
- Programs: Large purchases of smaller, but durable, assets
- Soft assets: Building plans, some studies
- Major, infrequent repairs that have a long life: a school roof
- Large tools or equipment: The Jaws of Life



Not Capital Assets

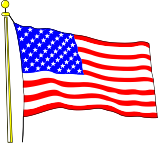
- Services
- Painting rooms or buildings
- Medical treatments
- Books (for students or for lending)
- Field maintenance
- Routine building maintenance
- Sports uniforms
- Studies not associated with a capital project



Prioritization

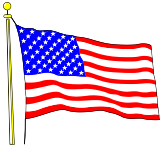
Arlington has developed these guidelines for prioritizing projects:

- Imminent **threat to health and safety** of citizens, employees or property (police cruisers and radios, SCBA –self contained breathing apparatus),
- **Maintenance and improvement** of capital assets (major repairs of buildings, replacement of vehicles and equipment, park and play area renovations),
- Requirement of **state or federal law** (asbestos cleanup program mandated by federal law in 1986, removal of gas tanks, etc),
- Improvement of the **infrastructure** (streets and sidewalks, water and sewer programs),
- Improvement of **productivity** (equipment replacement, microcomputer program) and
- Improvement of an **overburdened situation** (Town Hall renovations, cemetery expansion program).

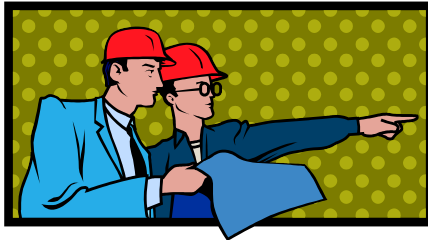


Some Comments on Process

- The Town Manager normally owns the Capital Budget
 - TM manages purchasing, implementation, maintenance, and departments. Sometimes the School Superintendent assumes specific ownership
 - Department heads request capital purchases or assets, because somebody has to have custody, care and control of the asset over its life
 - Private organizations or citizens do not request capital assets
 - A Capital Planning Committee reviews recommendations and requests, arbitrates and recommends a budget and plan to the Town Manager, Finance Committee and Town Meeting
 - Town Meeting approves a Capital Budget and Plan
- The CPC uses a rolling five-year plan, the first year of which is the capital budget



The Process



Department Five Year Requests - August

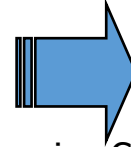


Department Expenditures Throughout Fiscal year



July 1 Funding

Monitor Prior Expenditures



Capital Planning Committee Review
September to January



Capital Planning Committee:
One Year Budget, Five year Plan

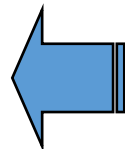


Town Manager and FinCom



Spring Town Meeting

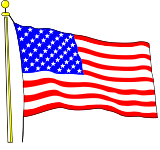
Town Meeting Approves Next FY Budget





Arlington's Financial Strategies

- Arlington has a Long Range Planning Committee that plans revenues and expenses five years out. The CPC plans within these forecasts.
- Non-exempt budget only (Town Meeting Approval):
 - All cash – use annual reserve set asides (tough to do), but saves on interest
 - Cash and borrowing – flexible way to meet needs on timely basis
- Exempt budget only (requires public referenda)
 - Can be cash or debt exclusion or override
- Combination of non-exempt and exempt budgeting
 - Use non-exempt plan for most projects
 - Use non-exempt plan for extraordinary expenses
 - Arlington follows this approach



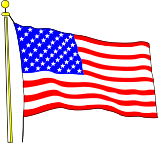
Sources of Funds

- Prop 2 ½ Non-exempt Funds:
 - Current FY non-exempt budget direct appropriation (“Cash”).
 - Current FY non-exempt bonded appropriation (“Bonds”).
- Grants, CDBG, Trusts, enterprise funds, other off-balance sheet income (“Other”).
- Prop 2 ½ Exempt Funds:
 - Direct expenditure.
 - Exempt borrowing (Debt Exclusion).
- Community Preservation Act (“CPA”)



Uses of Funds

- Purchase of qualifying equipment, material, buildings and other assets.
- Interest on bonds or bond anticipation notes (BANS).
- Principal on bonds (principal and interest on bonds together called “debt service”).)
- Distinguish between exempt and non-exempt debt service.



Defining the Capital Budget

- Note: Bonds usually have interest only or small principal effect in current year.
- Total capital budget for FY is sum of:
 - Direct cash expenditures for capital items in FY, and
 - Interest and principal impact in FY of new bonds, if any, and
 - Debt service on all prior bonded expenditures.
- One planning approach fixes this sum as a percentage of the annual Town Budget.
- Capital Budget = Cash Purchases + New Debt Service + Prior Debt Service = X% of total Non-exempt Budget

Arlington sets this at 5%



Managing The Information Flow

- In Arlington we use MS Access and Excel with Pivot Tables.
- Pivot Tables work well for exporting data to tables and graphs
- All requests are entered online
- Data aggregated in MS Access
- We are looking to upgrade the system

Town of Arlington, MA

Print | Blank PDF | Search | Import | Export | Export Blank

Manager - Capital Budget Request

Review

Instructions:
[Submission](#) | [Search and Export](#) | [Print a Summary Report](#)
Form is now in Sub-Committee Review mode

Select your Department * COMMUNITY SAFETY - FIRE SERVICE ▼

Is this a new request? *

☐ Yes, this is a new request. ☐ No, I am updating or reviewing an existing request.

Department requests

View and edit by clicking a blue arrow; hover over link to see details.

- Air Handler Replacement Park Circle
- Apparatus Bay Heating Unit Park Circle
- Carpeting - Flooring at Park Circle Station
- Central station exterior waterproofing
- Engine Pumper to Replace #1025
- Firefighter Protective Gear
- Furniture - Park Circle / Highland
- Jaws of Life - Extrication Equipment
- Lighting Plant Replace 2001 Ford vehicle #1015
- Portable Radio Replacement
- Replace Ambulance #1026
- Replace EM vehicle #1016 Air supply
- Rescue Ambulance replacing 2013 Ford Horton
- Thermal Imaging Cameras Replacement
- Vehicle Replacement - #1017 2012 Ford Escape
- Vehicle Replacement - #1022 2014 Ford Interceptor

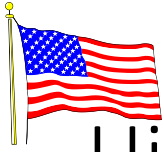
Create a new record

Submit Cancel Record: 182 (new) of 182

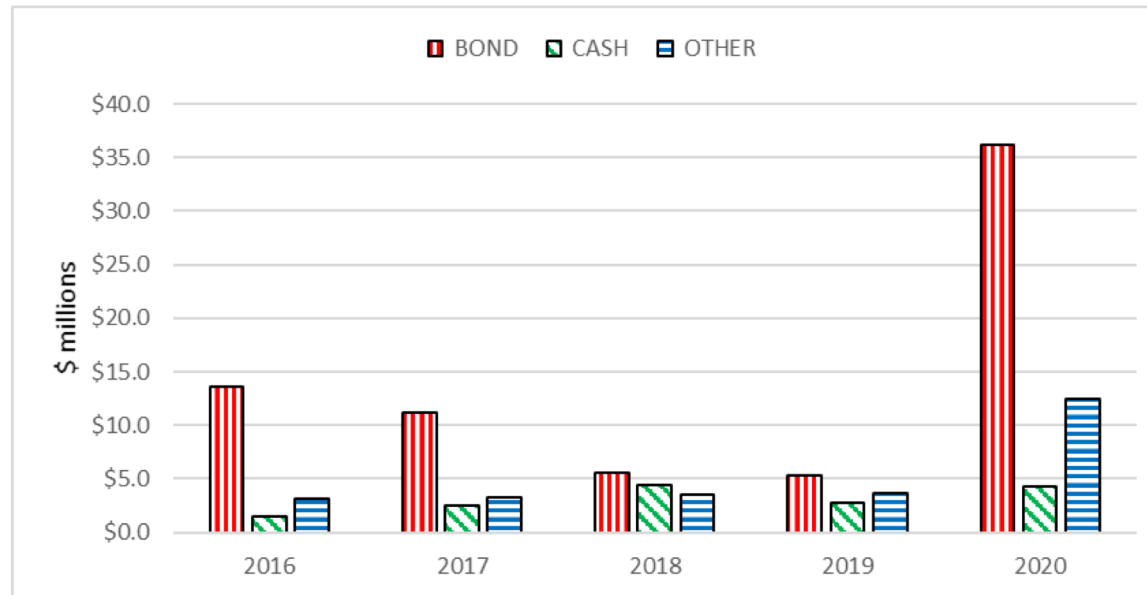


Arlington Capital Report to Town Meeting

- The Capital Planning Committee produces an annual Capital Report to Town Meeting containing:
 - A Narrative
 - Typically 12-15 pages
 - Highlights spending strategy, year to year comparison
 - Focuses on major projects
 - Tables
 - Current FY Capital Budget
 - The TM Vote
 - A Five-Year Capital Plan
 - A list of Town-owned buildings and their status
 - A three-year history of capital budgets
 - A table of forecast new debt service in the Five-Year Plan
- The FY 2020 Plan presented at the April 20`9 Town Meeting may be found at:
<https://www.arlingtonma.gov/town-governance/all-boards-and-committees/capital-planning-committee/reports-to-town-meeting>

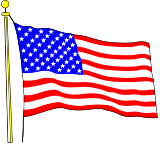


Historical Funding Summary



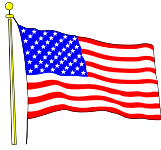
\$ millions	2016	2017	2018	2019	2020	5-Year Sum
BOND	\$ 13.6	\$ 11.2	\$ 5.5	\$ 5.3	\$ 36.2	\$ 71.7
CASH	\$ 1.4	\$ 2.5	\$ 4.4	\$ 2.8	\$ 4.2	\$ 15.4
OTHER	\$ 3.2	\$ 3.3	\$ 3.6	\$ 3.6	\$ 12.4	\$ 26.1
TOTAL	\$ 18.2	\$ 16.9	\$ 13.5	\$ 11.7	\$ 52.8	\$ 113.2

- Bond and Cash hit the tax rate
- Bond and Cash managed to 5% limit impact
- Other is from separate funds



Planning the Future

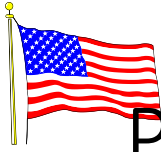
- Calculate year's forecast budget
- Adjust for exempt debt, re-imbursements
- Calculate 5% for total capital and debt service = capital budget
- Add in each year's new planned debt service to known non-exempt debt service now and in future
- Add in direct cash expenditures as planned
- Compare to budget



Forecasting Debt Service

Note: List is truncated

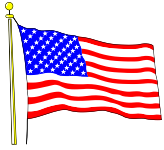
Department	Item		2020	2021	2022	2023	2024	Grand Total
Sum of DebtServicePmt								
COMMUNITY SAFETY - FIRE SERVICES			\$3,588	\$41,011	\$109,098	\$155,816	\$161,083	\$470,595
	Central station exterior waterproofing	10					\$2,500	\$2,500
	Engine Pumper to Replace #1025	20			\$11,250	\$52,500	\$51,375	\$115,125
	Lighting Plant Replace 2001 Ford vehicle #1015	10			\$1,313	\$9,625	\$9,363	\$20,300
	Portable Radio Replacement	7	\$3,588	\$36,461	\$35,436	\$34,411	\$33,386	\$143,280
	Replace Ambulance #1026	5					\$7,000	\$7,000
	Rescue Ambulance replacing 2013 Ford Horton	5		\$4,550	\$61,100	\$59,280	\$57,460	\$182,390
COMMUNITY SAFETY - POLICE SERVICES			\$23,485	\$181,170	\$176,473	\$171,776	\$167,079	\$719,983
	Radio Upgrade-Replacement Program	10	\$16,923	\$130,545	\$127,161	\$123,776	\$120,392	\$518,796
	Radio Upgrade-Replacement Program (prior appropriation)	10	\$6,563	\$50,625	\$49,313	\$48,000	\$46,688	\$201,188
SCHOOLS			\$29,523	\$182,728	\$291,346	\$407,623	\$484,381	\$1,395,601
	Bishop School Roof Repair	20					\$7,500	\$7,500
	Bus #101 - 53 Passenger	5				\$2,138	\$23,275	\$25,413
	Bus #108 - 53 passenger bus	5			\$1,875	\$23,750	\$23,000	\$48,625
	Gibbs School HVAC Catwalks	10	\$1,750	\$13,500	\$13,150	\$12,800	\$12,450	\$53,650
	Gibbs School Renovation	20	\$8,750	\$42,500	\$41,625	\$40,750	\$39,875	\$173,500
	Gibbs School Renovation adjustment	20	\$6,335	\$30,770	\$30,137	\$29,503	\$28,870	\$125,614
	Hardy Boiler	7			\$3,750	\$36,071	\$35,000	\$74,821
	Hardy HVAC Roof Top Units	7		\$5,250	\$58,982	\$105,964	\$102,857	\$273,054
	Hardy Playground	15	\$5,250	\$30,500	\$29,800	\$29,100	\$28,400	\$123,050
	Hardy Reroofing Phase II	20					\$20,000	\$20,000
	Landscape Improvements - Bishop School	15	\$2,188	\$12,708	\$12,417	\$12,125	\$11,833	\$51,271
	Ottoson Roof Replacement	10					\$20,000	\$20,000
	School Playground Upgrades	10	\$5,250	\$40,500	\$39,450	\$38,400	\$37,350	\$160,950
	Security Updates	7		\$1,750	\$19,661	\$37,571	\$55,571	\$114,554
	Water penetration Bishop	10		\$5,250	\$40,500	\$39,450	\$38,400	\$123,600
SELECT BOARD			\$1,995	\$15,390	\$14,991	\$14,592	\$14,193	\$61,161
	Voting Machines	10	\$1,995	\$15,390	\$14,991	\$14,592	\$14,193	\$61,161
VETERANS' MEMORIAL RINK ENTERPRISE FUND			\$2,625	\$15,550	\$26,088	\$25,545	\$25,003	\$94,810
	Boiler Replacement	20	\$2,625	\$12,750	\$12,488	\$12,225	\$11,963	\$52,050
	Ed Burns Arena Roof Work	20		\$2,800	\$13,600	\$13,320	\$13,040	\$42,760
Grand Total			\$173,268	\$1,115,284	\$2,407,026	\$3,493,307	\$3,778,669	\$10,967,553



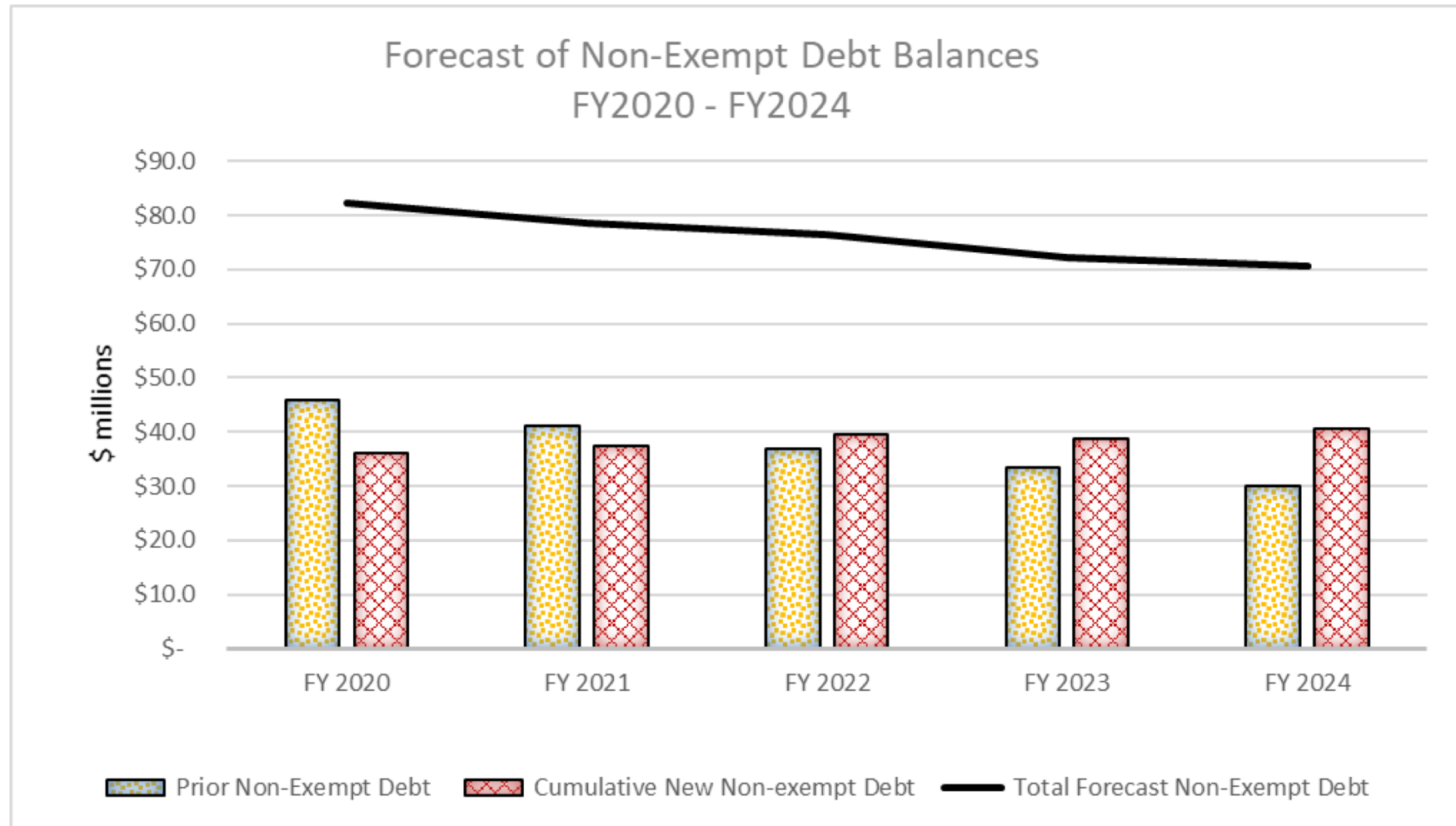
Planned Composition of 5% Appropriation for Five Years

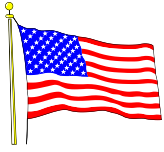
Line Item	Fiscal Year	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Total
a3	Prior Non-Exempt Debt Service	\$6,338,815	\$5,387,609	\$4,671,971	\$4,310,662	\$3,958,620	\$24,667,677
d	Cash	\$4,222,995	\$3,125,060	\$2,356,304	\$2,150,383	\$2,602,993	\$14,457,735
b3	New Non-Exempt Debt Service	\$173,268	\$1,115,284	\$2,407,026	\$3,493,307	\$3,778,669	\$10,967,553
	BAN Interest and Principal	\$0	\$242,000	\$484,000	\$21,560	\$21,560	\$769,120
e	Total Non-Exempt Tax Burden	\$10,735,078	\$9,869,952	\$9,919,301	\$9,975,912	\$10,361,842	\$50,862,085
f	<i>Direct funding sources:</i>						
	Non-exempt Bond Premium (from FY2019)	(\$461)	\$0	\$0	\$0	\$0	(\$461)
	Rink Enterprise Funds	(\$101,278)	(\$71,806)	(\$80,244)	(\$77,601)	(\$75,109)	(\$406,038)
	Ambulance Revolving Fund	(\$47,175)	(\$30,675)	(\$86,475)	(\$59,280)	(\$57,460)	(\$281,065)
	Capital Carry Forwards	(\$1,203,204)	\$0	\$0	\$0	\$0	(\$1,203,204)
	Antenna Funds	(\$459,845)	(\$208,181)	(\$181,795)	(\$175,199)	(\$173,550)	(\$1,198,569)
	Urban Renewal Fund	(\$48,944)	(\$47,344)	(\$45,744)	(\$44,144)	(\$42,544)	(\$228,719)
	Recreation Enterprise Fund	\$0	(\$56,203)	(\$207,419)	(\$203,131)	(\$198,844)	(\$665,597)
	Asset Sale Proceeds	\$0	(\$500,000)	(\$268,000)	\$0	\$0	(\$768,000)
g	<i>Adjustments to 5% Plan:</i>						
	Roadway Reconstruction Override 2011	(\$475,474)	(\$487,361)	(\$499,545)	(\$512,033)	(\$524,833)	(\$2,499,246)
	2016 and prior Bond Premium	(\$516,611)	(\$260,240)	\$0	\$0	\$0	(\$776,851)
	Prior Year Encumbered Debt Service	\$0	\$0	\$0	\$0	\$0	\$0
	Debt service, Town-owned Rental Properties	(\$98,000)	(\$68,500)	(\$17,000)	(\$16,650)	(\$16,300)	(\$216,450)
h	Net Non-Exempt Plan	\$7,784,086	\$8,139,643	\$8,533,080	\$8,887,874	\$9,273,203	\$42,617,886

- Includes non-exempt debt service.
- Includes carryover amounts.
- Includes cash expenditures.
- Shows transfers of reserves (rainy day funds).

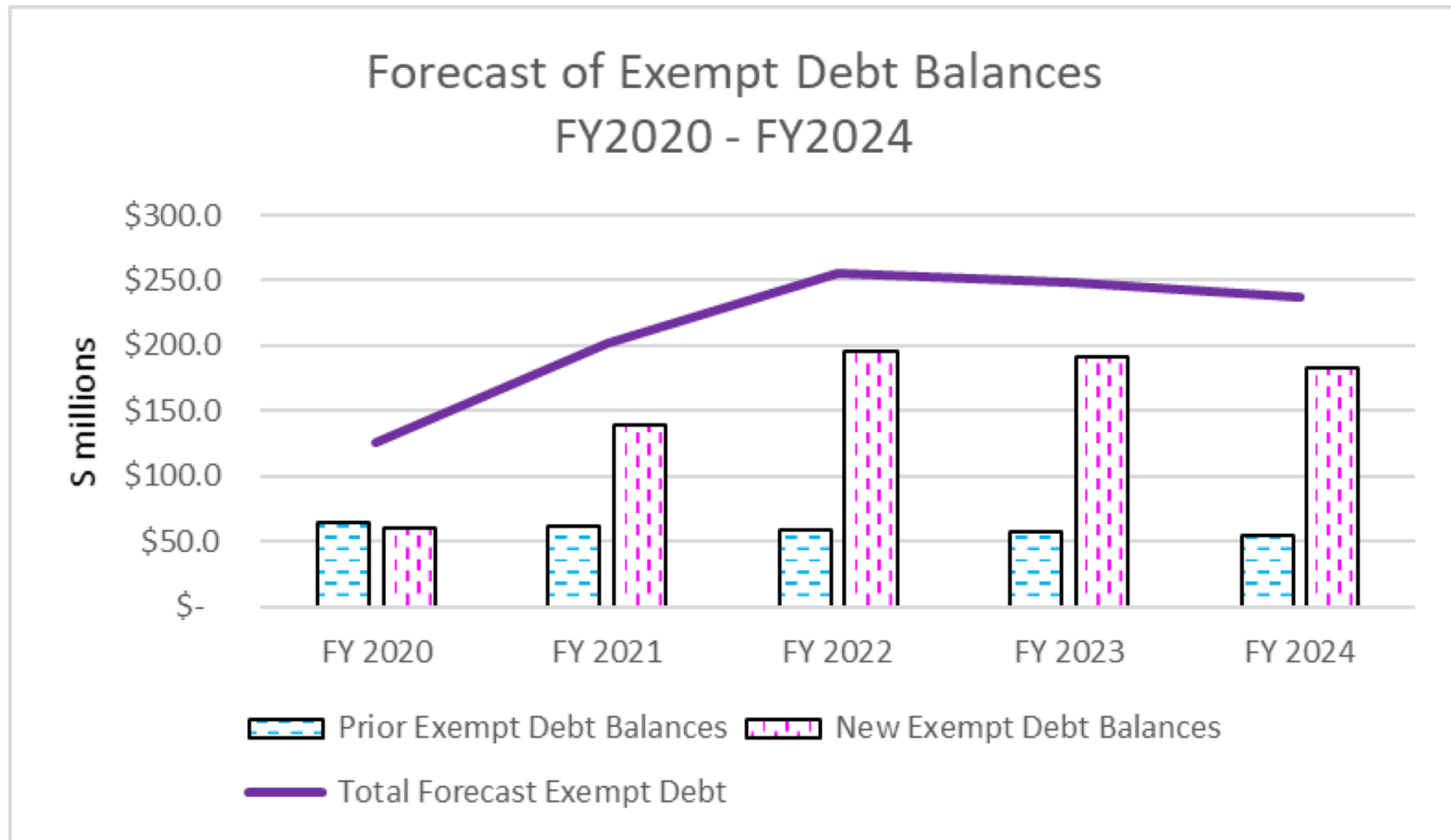


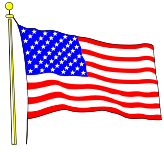
Forecast of Non-exempt Debt



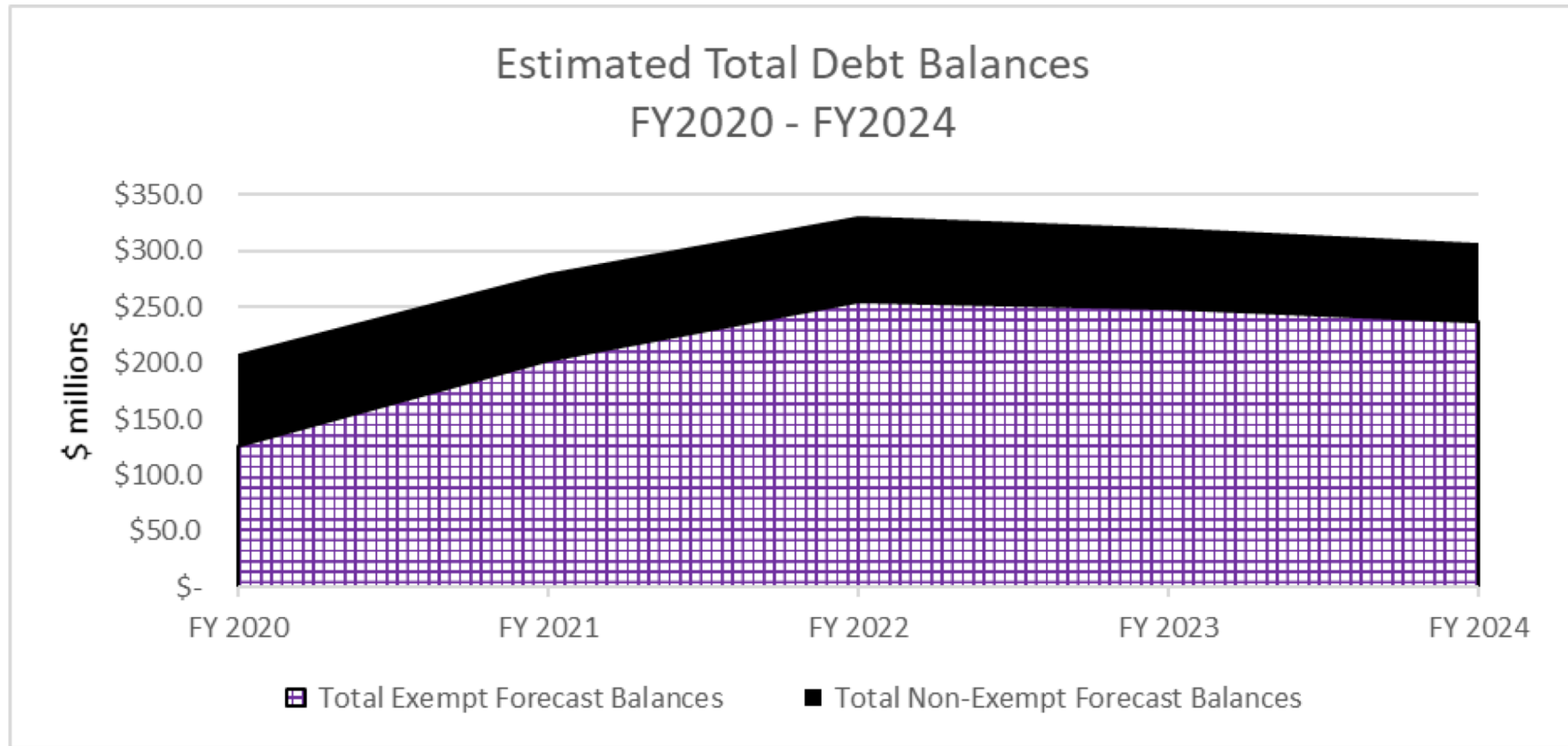


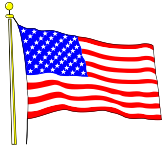
Exempt Debt Growth



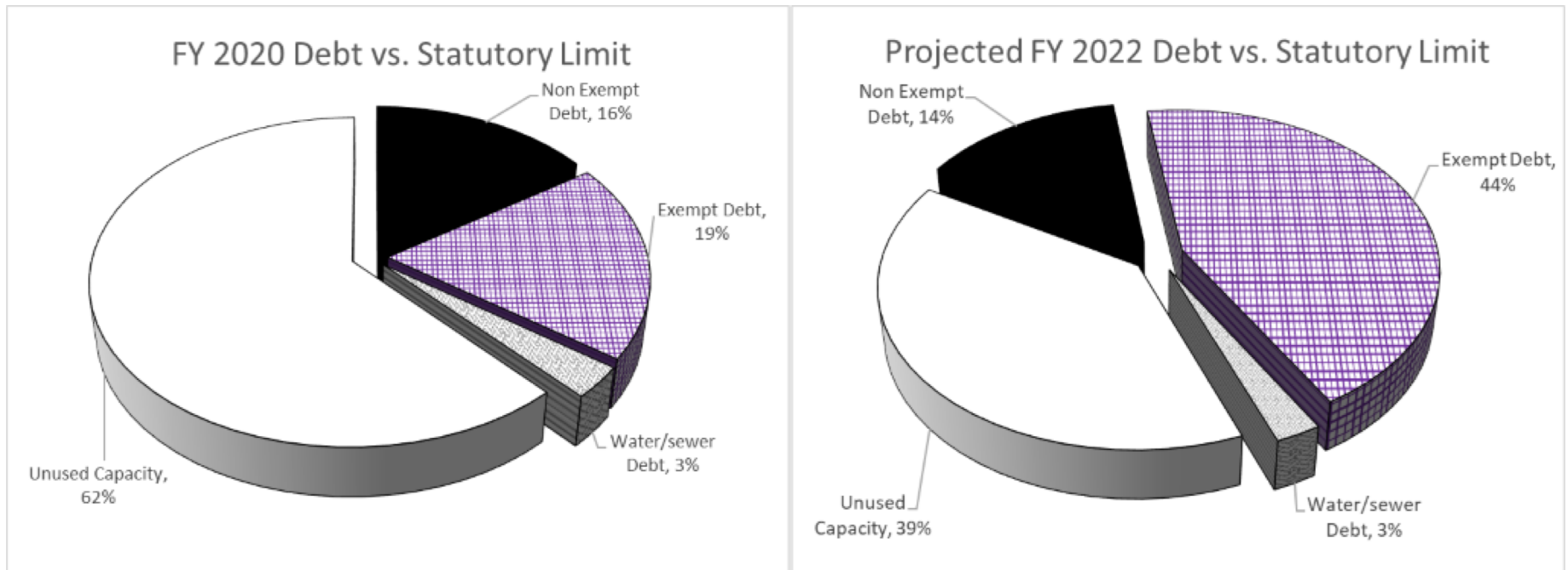


Estimated Total Debt Balances

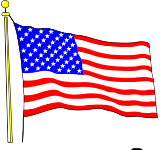




Arlington and Debt Limit



Even with the new Arlington High School we have headroom



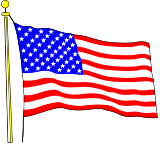
Major Building Projects Over 32 Years

Non-Exempt

- Ottoson Middle School (rnv)
- Robbins Library (with grants) (rnv + new)
- Park Circle Fire Station (new)
- Highland Fire Station (rnv)
- Community Safety Building (rnv complete)
- Central Fire Station (rnv Complete)
- Stratton E.S. (Complete)
- Senior Center (In Process)
- DPW Facility (in Process)

Exempt

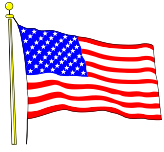
- Brackett E.S. (new)
- Hardy E.S. (rnv)
- Bishop E.S. (rnv)
- Peirce E.S. (new)
- Dallin E.S. (new)
- Thompson E.S. (new)
- Arlington H.S. (In Process)
- Minuteman Regional V.H.S. (Complete)



Key: Forecast of Non-exempt Capital and Debt Service vs. Budget

Fiscal Year	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Total
Net Non-Exempt Plan	\$7,784,086	\$8,139,643	\$8,533,080	\$8,887,874	\$9,273,203	\$42,617,886
Pro Forma Budget	\$155,763,733	\$163,042,581	\$170,786,880	\$177,549,783	\$185,406,070	\$852,549,027
Budget For Plan at 5%	\$7,788,187	\$8,152,129	\$8,539,343	\$8,877,489	\$9,270,304	\$42,627,451
Plan as % of Revenues	5.00%	4.99%	5.00%	5.01%	5.00%	5.00%
Variance From Budget	\$4,100	\$12,486	\$6,263	(\$10,385)	(\$2,899)	\$9,566

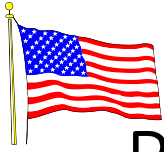
- Looks at committed debt service, cash expenditures and new debt service.
- Comparison to 5% of budget based on **assumed revenue** (state aid and local receipts) parameters.



Library Vision

- Teen use at Robbins increased over 41% over the past 2 years
- Influx of Gibbs students at Fox –no dedicated space for teens or tweens
- Use of Community , conference and study rooms has increase 80% in the past decade
- Arlington’s 80+ boards and commissions have competing needs for space



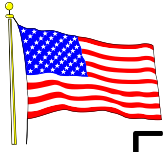


Robbins Library

Renovation and addition

- Total costs : \$11,270,000
 - Design \$980K
 - OPM \$490K
 - Hard Costs \$9.8M
- FY 2022 request \$980K
- Study plan subsidized with Library Trust Funds in FY 2018
 - 2 public meetings, surveys (500 responses) and 5 working groups
 - Ann Beha Architects hired by Library Trustees and Director of Libraries



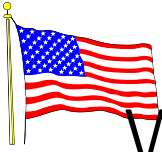


Fox Library

New Construction

- Total costs \$7,820,000
 - Design \$680K
 - OPM \$340K
 - Hard Costs \$6.8M
- FY 2024 request \$680K
- Other Financing Sources
 - Eligible for MBLC
 - Arlington Libraries Foundation TBD
 - Friends of Fox ~\$100K
 - Library Trust Funds – potentially \$1.1M





Winning Town Meeting Support for the Capital Budget

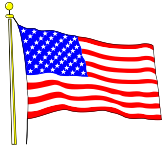
- Have a Capital Plan as well as a budget.
- Whenever possible stick to the plan.
- Bring bad news to TM as soon as possible, preferably years in advance.
- Always highlight problems, don't gloss them over, explain them in detail.
- Give TM credit for Capital Spending *within the plan*, which then becomes TM's plan.
- Give TM credit for spending large amounts of money wisely; that's usually what they want to do, but rarely can be sure they have. A Capital Plan and history allows measurement and proof.

Result: 32 years successful TM votes with no changes, most votes unanimous.



Capital Planning Committee Role

- Set standards and priorities.
- Provide continuity and institutional memory over many years.
- Inspire and cajole managers to plan ahead.
- Reward careful planning by management with funding - someday.
- Communicate short-term and long-term needs to Town Manager, Finance Committee, Town Meeting and Citizens.
- Exhibit predictability and *Gravitas*.



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Thank You!

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