

Capital Budget Committee Report, April 2015

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Introduction and context

The Capital Budget Committee, appointed by the Town Moderator, is responsible for assessing the need for capital expenditures or programs (usually more than \$10,000 and five-year life), recommending action to the Advisory Committee and reporting to voters at Town Meeting. Our objective is to provide a credible plan to fulfill the Town's ongoing capital needs, taking into account both current and anticipated future requests, without unduly burdening the taxpayer. The Capital Budget plan is typically funded with debt that is excluded from the Prop 2½ property tax levy limit, and the proposed annual borrowings are subject to ballot approval. Thus, annual excluded debt payment must be raised in taxes above the operating budget. Capital items can also be funded through non-excluded debt, in which case the annual cost of the non-excluded debt must be absorbed within tax levy limits, or by transfer from Free Cash.

Because of careful cost management by school and town officials, along with tight fiscal guidance from the Sherborn Advisory Committee and a healthy free cash situation, many of this year's capital requests can be funded by means other than exempt debt. Setting the library request aside, capital requests to be funded with exempt debt could total \$420,960 if the Town approves all requests. While Sherborn's short term finances are relatively strong, there continue to be several longer-term trends and structural challenges, noted last year, that we should take into account, including:

- **An overdependence on residential property taxes for our revenue.** Over 86% of Sherborn's revenue comes from residential property taxes, which is second highest among the 351 cities and towns in the state (source: MA Department of Revenue).
- **A high residential tax rate.** Our tax rate for 2015 was \$20.32 per thousand, which is slightly lower than last year's \$20.34. While we were able to stop the upward trend in our tax rate, it is still higher than all but 15 of the cities and towns in Massachusetts. It is perhaps more relevant to compare our tax rate to towns in Metro West in which people might consider buying a house, and among this group Sherborn's rate is the highest. The closest "competitor" is Carlisle (\$19.00); and Dover (\$12.70), Lincoln (\$14.15), and Boxborough (\$16.65) are significantly lower (source: MA Department of Revenue). If it hasn't happened already, our tax rate will start affecting property values at some point.
- **Expected growth of pension and health care obligations.** Recent analysis projects the Town's pension and health care obligations to grow by at least 7% per year, which is much faster than the maximum 2.5% increase in taxes that is allowed by law without an override vote. (Source: *Middlesex County Retirement System and Odyssey Advisors, retiree health benefits actuaries*). Segal Consulting's analysis of the Middlesex County Retirement System estimates Sherborn's unfunded liability at \$9.6M as of January 1, 2014. These benefits are contractual obligations, so there is no option to pay less than what is legally mandated. In the absence of other revenue sources, the growth in these obligations will force us to reduce spending in other areas.

These trends and structural challenges are concerning, and they create a tension as we consider capital requests. On one hand, we need to make investments in order to maintain services, public safety, and quality of life. On the other hand, the trends and circumstances outlined above suggest that Sherborn is at some risk of serious financial difficulty at some point in the future unless we take steps to change the situation.

Within that context, the Capital Budget Committee urges the Selectmen, school administration/committees and Sherborn Advisory Committee to consider the following:

- **Look across Town departments** for opportunities to share resources and realize economies of scale. For example, we should be looking at our capital needs across buildings, equipment, and departments. This year's request for surge protection across town buildings is a good example of this approach.
- More broadly, **Sherborn should seriously explore regionalizing** where it makes sense both financially and operationally. Last year, the Capital Budget Committee suggested that the Selectmen to appoint a working group to identify opportunities to regionalize, quantifying the pros and cons of various options, and making recommendations to the Town. We still believe this is an idea that has merit.
- While we believe there are opportunities to continue to improve our cost management, this alone will not provide a complete solution. In order to reverse some of the trends outlined above, **Sherborn must address its revenue problem.** We recognize that efforts have been made in the past, that there is no single "silver bullet" solution, and that there is justifiable concern that diversifying our revenue sources could have an adverse effect on the character of the Town. That said, we believe that without some improvement on the revenue side of the equation, Sherborn is at some risk of a long, slow decline in our ability to provide the services and maintain the character that makes the Town an attractive place to live.

General approach

The Capital Budget Committee is charged with taking a long-term view of the Town's needs to maintain and enhance infrastructure. Thanks to efforts by the Pine Hill and Regional School Committees, as well as CM&D and the Police and

Fire Departments, we have long-range capital plans that provide visibility into the expected investment required to keep up the Town's capital assets and associated services.

It's important to note that, in any given year, the Town can choose to defer specific capital expenditures. However, the needs that those expenditures address do not then disappear, and in some cases delay can result in additional operating costs and capital costs in the future. The Capital Budget Committee strives to balance the desire to be fiscally responsible today with the prudent investment in the Town's infrastructure for tomorrow.

In considering this year's requests, the Capital Budget Committee used the same guiding questions as last year:

- Does the request pertain to an investment that represents a specific, near-term safety issue? And/or
- Does the request represent an investment that will reduce or avoid future costs required to maintain service levels?

In addition, we asked proponents to explore alternatives to debt funding (e.g., grants, fees), as well as less expensive options before finalizing their requests. Many of this year's requests would be funded in ways other than exempt debt, which will lessen the future burden on the town.

The Capital Budget Committee continues to monitor the Town's debt service relative to the overall budget. For FY2016, debt service (including Regional Schools obligations) represents 8.74% of the Town's budget, up from 8.06% in FY2015. This represents a reversal of the downward trend we had experienced from FY12 (8.97%) to FY15, but is still below the 10% benchmark established by the Government Finance Officer's Association.

Recommendations and forecast

The following table summarizes this year's capital requests and forecasts future requests that proponents have submitted to the Capital Budget Committee. While the amounts indicated for FY2016 are relatively solid estimates, the priorities, needs, timing and dollar amounts for capital requests in future years may change as specific warrant articles are considered at future Town Meetings. Citizens should regard figures for future years only as indications of future needs, and recognize that the inclusion of a request on the capital plan does not indicate endorsement by the Capital Budget Committee.

	FY2016			Capital Budget Forecast				
	Request	Method	CB Action	2017	2018	2019	2020	2021
Town Buildings & Properties								
Pine Hill School ongoing upkeep and investment	\$ 200,500	\$198,250 exempt debt; \$2,250 from previous year's article	Favorable action	\$ 248,710	\$ 148,180	\$ 38,280	\$ 398,418	\$ 196,096
Library renovation	\$ 1,000,000	Exempt debt	Favorable action					
Town building capital plans								
CM&D/Traffic Safety								
Replace 2 one-ton dump trucks	\$ 180,000	\$172,710 exempt debt; remainder from previous year's article	Favorable action					
Future fleet replacement				\$ 230,000	\$ 220,000	\$ 130,000	\$ 110,000	\$ 160,000
Woodland/Goulding intersection	\$ 95,000	\$50,000 non-exempt debt and \$45,000 leftover Western Avenue funding	No action					
Replace traffic light controller				\$ 205,000				
Town Hall parking lot & access road enhancement planning	\$ 10,000	Free cash	No action					
Fencing at the transfer station - wetlands area	\$ 13,500	Free cash	Favorable action					
Fire/Rescue/Police								
Maintain and fix town hydrants - Forest and Farm	\$ 45,000	Free cash	Favorable action					
Replace ambulance				\$ 175,000				
Replace E-2						\$ 400,000		
Police cruiser fleet				\$ 383,400				\$ 54,353
Dover/Sherborn Region								
DSMS/HS ongoing upkeep and investment (Sherborn's share, shown here, is 45.55% of total)	\$ 163,069	Free cash	Favorable action	\$ 220,000	\$ 95,500	\$ 203,000	\$ 234,000	\$ 115,000
DSMS roof replacement (Sherborn's share)							\$ 507,000	
Infrastructure and miscellaneous								
Surge protection for town buildings	\$ 20,000	Free cash	Favorable action					
Town Hall replacement of carpet	\$ 13,500	Current operating budget	No action					
Unspecified				\$ 200,000	\$ 200,000	\$ 200,000	\$ 300,000	\$ 300,000
Capital Budget Requests	\$ 1,740,569			\$ 1,662,110	\$ 663,680	\$ 971,280	\$ 1,549,418	\$ 825,449
Capital Budget Plan (excludes items recommended no action)	\$ 1,622,069							
Amount to be funded with exempt debt	\$ 1,420,960							

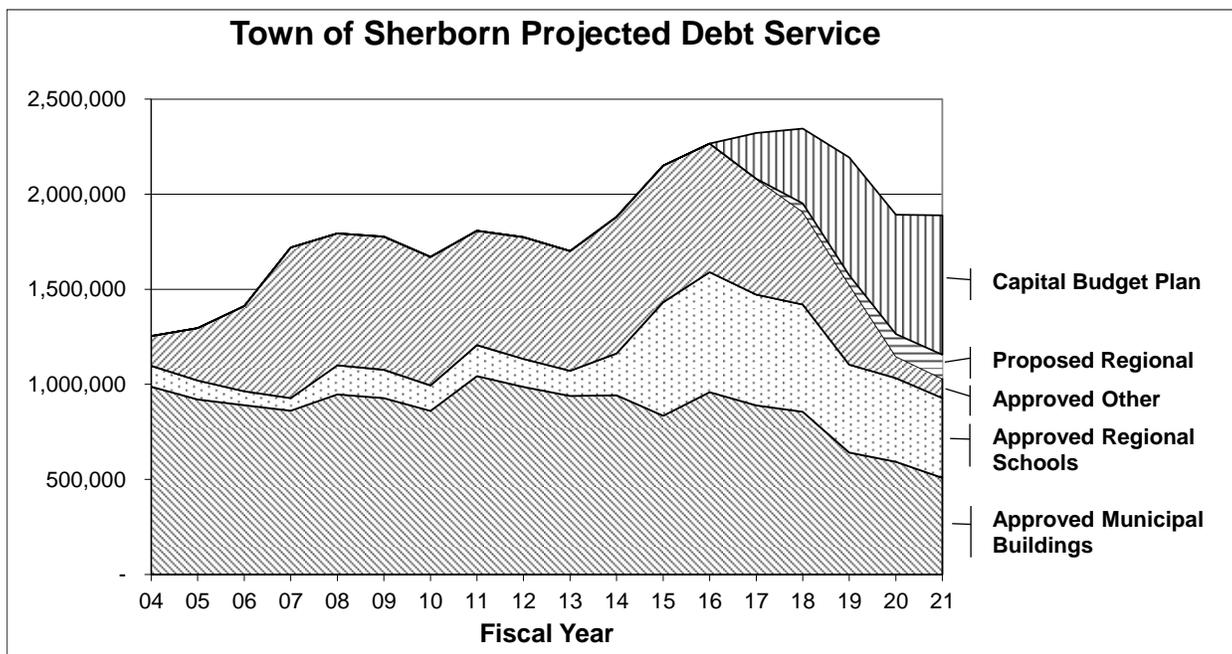
This year's requests included funds: for extensive renovations and upgrades to the library, as part of a public/private effort; to replace two CM&D dump trucks; to redesign the Woodland/Goulding Street West intersection; to enhance Town Hall parking and access; to add fencing at the Transfer; to do repair work on the hydrant at Forest and Farm Streets; for surge protection at several town buildings; for carpet replacement at Town Hall; and for ongoing upkeep and investment at Pine Hill School and the Regional Schools. The committee explored a proposal from the Police Department to consider a

different approach to purchasing and managing our cruiser fleet, but we were unable to fully analyze the idea and hope that the Town will appoint a task force to fully vet the idea for next year.

Capital requests for FY2016 totaled \$1.74M. The Capital Budget Committee voted to recommend no action on the Woodland/Goulding Street West intersection, Town Hall parking and access, and Town Hall carpet replacement (see discussion below), so the planned capital was \$1.62M. The Transfer Station fencing, hydrant repair, regional school maintenance, and surge protection would be funded out of Free Cash rather than exempt debt if the voters approve them, as would the Town Hall parking and access project. Town Hall carpeting was to be funded out of current operating budget, and some of the Pine Hill and CM&D costs would be funded with resources remaining from previous articles. The Woodland/Goulding Street West project would be funded by a combination of Chapter 90 and exempt debt. When all of these variables are factored in, the amount to be funded with exempt debt would be between \$1.33-1.42M.

These projects will push forecasted debt service from a projected \$2.15M in FY2015 to \$2.26M in FY2016. Projected debt service grows to \$2.32M in FY2017, holds relatively steady at \$2.30M in FY2018, and then drops to \$1.89M in FY2019. These projections include ongoing investment in Pine Hill and the Regional Schools, as well as ongoing CM&D and Fire Department equipment replacement. Further out, we anticipate a significant cost for roof replacement at the Middle School.

It's important to note that, while the capital plans developed by various committees give us better visibility of future needs, the table above does not represent the full picture. In other words, there are sure to be additional requests, so the information we have now could be thought of as the floor for capital requests.



Final determinations for all articles are made by vote at Town Meeting and by ballot approval at the May 13th Town elections for those articles funded through debt-exclusion override. The following summarizes the Capital Budget Committee's opinions and recommendations to voters for the April 28, 2015 Annual Town Meeting:

Sherborn School Committee / Pine Hill School Building Subcommittee – Capital needs for Pine Hill School – \$200,500 was requested for maintenance of and improvements to Pine Hill School. This request funds Year 3 of the 20-year capital needs plan for the school. The school building has been well cared for, but is over fifty years old. As such, regular improvements are needed to keep it safe, energy efficient, and suitable for providing an excellent education. Of the amount requested, \$17,000 is for air handling units, \$18,600 for classroom univents, \$44,000 for curbing and sidewalk repairs, \$28,000 for classroom windows, \$61,000 for soffit and roof insulation work, \$63,500 for storm drains, and \$50,000 for an early childhood playground. These projects total \$282,100; \$31,600 is available from the FY 2015 capital article to be applied to the soffit/roof project, and \$50,000 for the playground is covered by a private donation. The net amount funded by this Article is \$200,500.

We recommended favorable action and that \$198,250 be funded through exempt debt, and \$2,250 be funded from resources remaining from previous articles.

Sherborn Library Board of Trustees – Sherborn Library Renovation and Expansion – \$1,000,000 requested. The Library Trustees' plan for expanding the library includes a new public meeting space, a separate children's room, and an elevator; it also updates the existing space to meet current standards of accessibility, safety, and energy efficiency. The

entire project is expected to cost \$7,479,436, of which \$3,633,603 will be met by state grants; \$2,845,833 has been raised privately, leaving \$1,000,000 to be financed by the Town. We believe the renovation/expansion will provide a major enhancement to an important asset of the town.

We recommended favorable action and that \$1,000,000 be funded through exempt debt.

CM&D – Two One-ton Dump Trucks – \$180,000 requested. This request will fund replacement of two trucks that are at the end of their useful lives.

We recommended favorable action and that \$172,710 be funded through exempt debt, with the remainder coming from resources from previous articles.

Engineering and Construction of the Woodland/Goulding Intersection – \$95,000 requested. An engineering study, funded by a previous Town Meeting, resulted in a new design intended to force vehicles to slower speeds for this intersection. Capital Budget notes that safety has been improved at other locations by simple means like stop signs, such as at the nearby 3-way intersection of Woodland and Mill Streets, and recommends that other options be explored before resorting to this very expensive construction.

We recommended no action.

Town Hall parking lot and access road - \$10,000 was requested for the engineering and design of additional parking for Town Hall and an access road to run from the parking lot next to Town Hall to Sawin Street. The proposed road will provide for better circulation around Town Hall, but could run through the Town property adjacent to Town Hall at 23 Washington Street. As such, it could lower the value of that property should the Town wish to resell it. The \$10,000 cost is therefore likely an underestimate of the true economic cost of the proposed road to the Town.

We recommended no action

Transfer station fencing - \$13,500 was requested for the construction of a fence around the transfer station. The proposed 12-foot high black chain link fence will keep trash from blowing out of the transfer station and into the wetlands south of the facility. The proposed funds are sufficient to construct the fence and to remove trash that has previously blown into the wetlands.

We recommended favorable action and that \$13,500 be funded through Free Cash.

Farm & Forest Streets hydrant repair - \$45,000 was requested to repair the fire hydrant and piping at the intersection of Farm and Forest streets. There is a 100-year old pipe that runs from Farm Pond to the old Medfield State Hospital. Because there is no gate valve on the pipe at the Pond, were the pipe to develop a leak east of Forest Street it could drain the entirety of Farm Pond into the Charles River. To remedy this situation, it is proposed that the pipe be capped just past the hydrant at Farm and Forest streets, where it is 18 feet below ground level. As the pipe is being capped, repairs will be made to the hydrant pipe and its foundation that will improve water flow to the hydrant.

We recommended favorable action and that \$45,000 be funded through Free Cash.

Regional Schools capital improvements - Funds were requested for capital improvements to the Dover-Sherborn Regional School campus. Sherborn's share of these expenses is 45.55% of the total cost, or \$163,069. The capital improvements are for five or six buildings on the campus, and include exterior LED lighting for the entire campus, installation of a second water well, recommissioning of the emergency generator, major (non periodic) painting of stairwells and common areas in the middle school, complete painting of the Mudge Auditorium, painting the middle school gymnasium, carpet replacement in the offices at the middle and high schools and in the library at the middle school, complete refurbishment of both the middle and high school gymnasium floors, replacement of the power divider curtain in the high school gymnasium, campus-wide asphalt repair and re-striping (as needed), and security enhancements. The projects are consistent with the Region's 20-year Capital Needs Plan.

We recommended favorable action and that \$163,069 be funded through Free Cash.

Surge protection for Town buildings - On three occasions since 2008, the Town has suffered lightning-induced power line surges that damaged Town buildings. None of the damaged buildings have transient voltage surge protection on the incoming power lines. This warrant article will engage a company specializing in lightning protection to perform the resistance to ground testing, select the appropriate power main service panel surge protection devices, purchase them and manage an electrical subcontractor in the installation of the devices. The buildings to be protected include the Police Station, Town Hall, Fire Station #1 & #2, and the CM&D garage.

We recommended favorable action and that \$20,000 be funded through Free Cash.

Replacement of carpeting in Town Hall - \$13,500 was requested to replace carpeting in Town hall. The carpeting is 11 years old and is showing its age. Some stains in the carpet cannot be removed with cleaning. It was determined that this item will be funded from the current Town operating budget, rather than from exempt borrowing or free cash.

We recommended no action