

EXECUTIVE SUMMARY

The Recommended Capital Plan

The Town Charter requires that the Town Manager, after consultation with the Board of Selectmen, submit in writing to the Board of Selectmen a careful, detailed estimate of the recommended capital expenditures showing specifically the amount necessary to be provided for each office, department and activity and a statement of the amounts required to meet the debt service requirements or other indebtedness of the Town. This plan includes the proposed FY2020 Capital Budget, which is recommended to the Finance Committee and ultimately to Town Meeting for consideration. The projects presented for FY2021-FY2024 reflect an assessment by municipal departments and the School Committee of future capital needs and are primarily shown for planning purposes. While many of these projects may ultimately be recommended for funding, the plan is a fluid one, and projects may be added and deleted from the list as circumstances change. The proposed financing plan for the recommended FY2020 capital budget is shown in Table 1.

Table 1

Fund	Cash	Debt	Other	Total
General Fund Tier 1	\$6,788,252		\$2,619,500	\$9,407,752
General Fund Tier 2	\$521,219			\$521,219
General Fund Total	\$7,309,471		\$2,619,500	\$9,928,971
Community Preservation Fund	\$1,147,000			\$1,147,000
Sewer Enterprise	\$1,631,487	\$800,000		\$2,431,487
Water Enterprise	\$291,500	\$4,500,000		\$4,791,500
Total (all funds)	\$10,379,458	\$5,300,000	\$2,619,500	\$18,298,958

FY2020 Highlights

In October 2016, the Board of Selectmen convened a Capital Facility Summit and committed to planning for the renovation, reconstruction or construction of eight facilities: Rosemary Pool, the Public Safety Building, Fire Station #2, the Memorial Park Fieldhouse, the DPW Complex, the Hillside School (now Sunita L. Williams), Needham High School, and Emery Grover. Over the past several years, the Town has made significant progress in this effort:

Rosemary Pool – The Rosemary Recreation Complex, including two pools, greatly improved parking, and office and programming space for the Park & Recreation and Health Departments, opened in August, 2018.

Public Safety Building & Fire Station #2 – The appropriation to fund the total reconstruction of these two public safety buildings was approved by the voters on November 6, 2018 and construction will begin in early 2019.

Memorial Park Fieldhouse – Construction of this facility is well underway with substantial completion expected in the summer of 2019.

DPW Complex – This project is progressing in phases. The fuel station was installed in 2017, and construction of the new DPW storage facility on Central Avenue will begin in early 2019. Continued planning for the phased reconstruction of the DPW operations building at 470 Dedham Avenue is a priority for the Board of Selectmen.

Sunita Williams School – The new school on Central Avenue replacing the Hillside School on Glen Gary Road is well underway and will open for the 2019/2020 school year.

Needham High School – The High School Cafeteria was expanded in 2017, and construction of eight new classrooms and A gym renovations were completed in the fall of 2018.

Emery Grover – The October 10, 2018 Special Town Meeting approved funding for an expanded feasibility study for appropriate workspace for School Administration.

FY2020 is the first year in which the transfer of the Recycling/Transfer Station function from an Enterprise Fund to the Department of Public Works General Fund is presented in the Capital Improvement Plan.

Capital Planning 101

Capital Improvement Plan

A capital expenditure is defined by the Needham General By-laws as the acquisition, construction, renovation, betterment, or improvement involving land, public buildings and facilities; water and sewer system laterals, mains and appurtenances; and equipment or vehicles; provided that the cost is \$25,000 or more and the improvement will have a useful life of five years or more; or any planning, feasibility, engineering or design study in preparation for such capital expense.

The Capital Improvement Plan (CIP) is a multi-year tool used to coordinate the financing and timing of major public improvements for the Town of Needham. It contains a list of capital projects proposed for the Town within the next five years and reflects the recommendations of citizens, boards, commissions, and staff from each of the Town departments. The CIP identifies each proposed project and presents a summary description, estimate of cost, method of financing, and a schedule of implementation. Capital planning helps ensure that the community is positioned to:

- preserve and improve its basic infrastructure through construction, rehabilitation and maintenance;
- maximize the useful life of capital investments by scheduling major renovation, rehabilitation, or replacement at the appropriate time in the life-cycle of the facility or equipment;
- identify and examine current and future infrastructure needs and establish priorities among projects so that available resources are used to the community's best advantage; and
- improve financial planning by balancing needs and resources and identifying potential fiscal implications.

Operating Budget and Capital Budget

The Town's capital budget and operating budget are developed separately but are closely linked. The annual operating budget provides for general municipal service delivery, including personnel, supplies and other contractual services, and certain capital equipment. Most appropriations in the annual operating budget are for a single fiscal year. In contrast, the capital budget is a multi-year budget designed to expend monies which add to the physical assets of the Town. Capital projects typically require expenditures which take place beyond a single fiscal year, funding with debt because of significant costs to be shared by current and future beneficiaries, systematic acquisition over an extended period of time in order to implement major operating systems or programs, and scheduled replacement or maintenance of specific elements of physical assets.

Notwithstanding the differences between the two, the operating and capital budgets are closely interwoven inasmuch as operating costs related to capital projects are estimated and incorporated into the operating budget. Many capital projects will have an impact on operating costs once constructed. Town practice is to project the net effect a capital project will have on the operating budget. While maintenance and repair costs may be lower in a new facility, larger and more modern facilities are often more costly to operate. In addition, since many capital projects are financed through municipal debt, repayment of that debt becomes part of the operating budget and is incorporated into the Town's forecasting models. The necessity to incur some

degree of debt in order to finance the CIP carries with it the burden to effectively manage that debt within the Town's financial resources.

Best Practices

The following best practices have been used in the development of the FY2020 operating and capital budgets:

1. Current revenues must be sufficient to support current expenditures.
2. The operating and capital budgets must be developed in conformance with the Town's comprehensive financial policies and must not be reliant on one-time revenue or unsustainable practices.
3. The five year Pro Forma budget must be updated on an annual basis to ensure that the underlying assumptions are adjusted based upon changing conditions and data.
4. Debt must not be used to fund on-going operating expenses, and will only be issued for capital improvements greater than \$250,000 with a useful life of five years or more.
5. The use of Free Cash to fund operations will be minimized by limiting such use to no more than 2% of the prior year's appropriated operating budget, or the actual turn back, whichever is lower.
6. Adequate contingency funds must be maintained.
7. Sufficient maintenance and replacement funds will be allocated to ensure that capital facilities and equipment are properly maintained.
8. The operating and capital budgets must be resilient – allowing the Town to maintain existing service levels, withstand typical local and regional economic disruptions, and meet the demands of natural growth, decline, and change.
9. The operating and capital budgets must be sustainable – meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Budget Priorities

The primary goal of the Board of Selectmen in consideration of the operating and capital budgets is the maintenance and optimization of existing Town services. In addition, mindful of the availability of revenue for appropriation, the Board has set the following priorities:

1. Support for items that contribute to the achievement of Townwide goals and objectives.
2. Support for a five to ten year plan for the renovation, reconstruction and/or preservation of the Town's capital assets in the most prudent, realistic, and efficient manner.
3. Support for initiatives that contribute to financial sustainability, including the maintenance of a debt service plan that balances capital needs with the Town's ability to pay, identification of alternative funding sources for traditional cash capital needs, evaluation of financing alternatives, and alignment of capital and maintenance needs with appropriate funding sources.

4. Support for initiatives aimed at achieving greater coordination and efficiency among Town departments, and providing adequate resources to address identified service delivery and general administrative needs of the Town in a cost effective manner.

Financial Benefits of Capital Planning

Needham's capital planning initiatives have contributed to the successful achievement and maintenance of its AAA bond rating from Standard and Poor's. This bond rating places Needham in the top tier of communities in Massachusetts and allows the Town to borrow at a lower interest rate. Investors and bond rating agencies stress the value of a CIP for a municipality seeking to borrow funds. The absence of a rational, long-term planning instrument would weigh against the bond rating assigned to Needham by rating agencies and the result would be higher interest rates on bond issues and the diversion of tax dollars to pay for the interest on loans. Another financial benefit of the capital planning process is the avoidance of poorly timed projects. Good planning can ensure that capital improvement efforts are coordinated. In addition, significant savings can accrue to taxpayers when major capital financing is coordinated so that bond issues are sold infrequently, and at times during the economic cycle when the Town can take advantage of low interest rates.

Development of the CIP

The process for preparing the FY2020 - FY2024 Capital Improvement Program and its associated FY2020 Capital Budget involves active participation by the Town Manager, Assistant Town Managers, and requesting departments, boards, committees and commissions. The Capital Budget is prepared in the context of a five-year determination of need by departments and the School Committee, in conjunction with the Town's overall financial capacity to affordably accommodate the required debt service payments. Projected debt service payments and budgetary impacts are forecast annually to help ensure affordability and sustainability of the Capital Improvement Program. The Town's Capital Improvement Policies provide guidance for assessing the capital needs of the Town. These policies, included in Section 6, define capital projects as those items requiring the expenditure of at least \$25,000 and having a useful life of more than five years. Recommended capital project requests are prioritized using the following criteria:

- the project is required to comply with State and/or Federal accessibility standards;
- the project is necessary to protect the health and safety of people; and
- the project is necessary to maintain an existing capital facility, or operation of equipment used in providing Town services.

In addition to the criteria listed above, the Town has a long practice of funding the systematic replacement of obsolete or worn-out equipment, and those items requested for the improvement of operating efficiency and the equitable provision of services.

The development of the CIP occurs over the following approximate timeframe:

Late Summer — Following Town Meeting, departments are provided with their previously submitted five year requests for review, update and the addition of the next fifth year. While requests for each year should remain the same as in the initial request, there are occasionally changed circumstances which necessitate alterations to the requests. This information is returned to the Town Manager and staff for review. Also in the summer, the Assistant Town Manager/Finance Director develops a pro forma budget for the ensuing five year period. The pro forma budget is the basis for the determination of the amount of revenue available to support the CIP.

Autumn — The Town Manager and staff meet with each department to gain a better understanding of each request.

Late Autumn/Early Winter — The Assistant Town Manager/Finance updates the preliminary debt schedules and financial forecasts in order to provide context to the Capital Budget as well as the five-year Capital Improvement Plan, and the Town Manager presents the Board of Selectmen with a proposed five-year plan.

January – The Town Manager transmits the Capital Improvement Plan, along with any recommendations made by the Board of Selectmen, to the Finance Committee by the first Tuesday after the first Monday in January.

January/February/March — The Finance Committee reviews each project in the capital budget and makes recommendations on items included in the Town Meeting Warrant.

May — The capital budget is presented to Town Meeting for consideration.

Financing of Capital Projects

The number of capital projects to be funded must be considered in the context of the total operating budget, capital budget needs, and revenue growth. Capital improvement projects are funded through current receipts, reserves, and/or other funds such as grants.

Current Receipts – Current receipts include property tax revenue, local receipts (such as fees and charges), and state aid. This plan includes no projects to be funded from current receipts.

Free Cash – Free Cash is a function of actual revenue collections in excess of estimates and expenditures less than appropriations. Because Free Cash should not be relied upon as a recurring revenue source, the Town's practice is not to rely upon it as an operating revenue source. In this plan, we have continued the effort to minimize the Town's reliance on Free Cash to support on-going operations by limiting such use to no more than 2% of the prior year's appropriated operating budget, or the actual turn back, whichever is lower. The recommended plan includes \$6,788,252 in Tier 1 projects to be funded from Free Cash.

Capital Improvement Fund – In 2004, the Town created a General Fund Cash Capital Equipment and Facility Improvement Fund (CIF). The purpose of the CIF is to allow the Town to reserve funds to use for general fund cash capital. The CIF may be used in future years to fund the acquisition of new equipment, the replacement of existing equipment, and building and facility improvements which cost less than \$250,000, for which the Town may borrow for a period of five years or more. Projects must be included in the CIP in order to be eligible for funding through the CIF. This plan includes no projects to be funded from the Capital Improvement Fund.

Capital Facility Stabilization Fund – In 2007, the Town created a Capital Facility Stabilization Fund to allow the Town to reserve funds for design, maintenance, renovation or reconstruction relating to the structural integrity, building envelope or MEP (mechanical, electrical, plumbing) systems of then existing capital facilities. For this purpose, capital facility refers to any building or structure which is located on Town property and is under the jurisdiction of the Town Manager, including any Town-owned building, structure, room, or space within a building, facility, park or plaza, open space, driveway, landscaped area, or other physical improvements under the administrative control of the Town. This plan includes no projects to be funded from the Capital Facility Stabilization Fund.

Athletic Facility Improvement Fund – In 2012, the Town created an Athletic Facility Improvement Fund to reserve funds for the design, maintenance, renovation, reconstruction, or construction of athletic facilities. For the purpose of the fund, athletic facilities include any Town-owned building, structure, pool, synthetic turf and natural grass turf playing field or ball diamond, and associated grounds and parking areas whose primary purpose is for organized athletic events for Needham children, adults, and school teams. This plan includes \$2,500,000 to be funded from the Athletic Facility Improvement Fund for FY2020.

Debt Service Stabilization Fund – The November 2, 2015 Special Town Meeting approved the establishment of a Debt Service Stabilization Fund to set aside funds to be available as necessary to pay certain debt obligations. This fund is intended to be part of the Town's overall planning strategy for addressing capital facility needs. The fund would provide added flexibility to maintain the Town's capital investment strategy by smoothing out the impact of debt payments in years when the debt level is higher than is typically recommended. The fund would also be beneficial at times when interest rates are higher than expected. The plan for the fund is designed to ensure that the monies are not depleted in a single year, and that the amount available for appropriation is known before the budget year begins. All appropriations to and from the fund require Town Meeting action. This plan includes no projects to be financed through use of the Debt Service Stabilization Fund for FY2020.

Retained Earnings – Three of the Town's operations – water, sewer, and solid waste – are accounted for as enterprise funds. The revenues and expenditures of these operations are not commingled with those generated by General Fund operations. Generally, each enterprise will generate surplus funds on an annual basis. The Board of Selectmen's retained earnings policies are included in Section 6. The policies contain reserve targets to ensure liquidity and stability of operations. Surplus funds above the target are considered available for appropriation. This plan includes \$1,631,487 in funding from Sewer Enterprise Fund retained earnings and \$291,500 in Water Enterprise Fund retained earnings.

Debt – The Board of Selectmen’s debt management policies (Section 6) provide guidance in translating capital expenditures into annual debt service. Section 2 of this plan contains a graphic presentation of the Town’s current debt service and a calculation of the Town’s debt burden (annual debt service as a percent of total Town revenues). The figures used in calculating the debt burden are derived from the Town’s long-term debt service schedule that is also included in Section 2. This plan includes a no projects to be funded through General Fund debt, \$800,000 to be funded through Sewer Enterprise Fund debt, and \$4,500,000 to be funded through Water Enterprise Fund debt for FY2020.

Community Preservation Fund – The Community Preservation Act (CPA) allows cities and towns to raise monies through a surcharge on the tax levy. These funds may then be used to acquire, create and preserve open space, acquire and preserve historic resources, create, preserve and support community housing, and acquire, create and preserve land for recreational use. The CPA also provides for matching funds from the Commonwealth. The CPA requires that each fiscal year Needham must spend, or set aside for later spending, at least 10% of the annual revenues in the Community Preservation Fund for each of three CPA target areas: open space (but not including land for recreational use), historic resources, and community housing. The remaining 70% may be appropriated at the Town’s discretion as long as it is used for the three target areas or recreation. The statute also permits the Town to appropriate up to 5% of the annual revenue estimate for the administrative expenses of the Community Preservation Committee (CPC). Projects submitted for inclusion in the CIP that qualify for CPA funding are forwarded to the CPC for its consideration. This plan includes a recommendation for \$1,147,000 in projects contingent upon Community Preservation Funding for FY2020.

Other Available Funds – An Available Fund is actual monies which have become available and may be used to fund expenditures. Monies may become available after a project is completed and the cost was less than appropriated, monies that were previously set aside for future expenditure (e.g., stabilization fund), or monies that are received by the Town but must be specifically identified as a funding source in the Town Meeting motion. An available fund may be restricted to certain purposes (e.g. surplus bond proceeds, special stabilization funds, sale of surplus real estate, grants), or may be non-restricted and hence can be appropriated for any legal purpose. Some Available Funds carry over from year to year and others expire at the end of the fiscal year and close out to fund balance. This plan includes \$119,500 in projects to be funded from Other Available Funds in FY2020.

The CIP Is a Flexible Planning Tool

While much of the Town’s budget and financial planning efforts are by necessity focused on one or at most two year intervals, capital planning helps to focus attention on the Town’s long-term objectives and financial capacity, and the balance between operating and capital needs. The Town is often faced with the option of reducing its capital plan in order to balance the operating budget. Having a formal and accepted plan helps to maintain a consistent level of spending for capital needs, barring extraordinary circumstances. Individual projects are evaluated against long-term objectives and in relationship to each other. By strategically programming capital projects, the Town can maintain a tolerable level of debt service, and prevent unexpected changes in debt service payments.

Investment in Real Property, Facilities and Infrastructure

Asset preservation – committing necessary resources to preserve, repair, or adaptively re-use current assets – is a high priority for the Town in order to keep its physical plant and infrastructure in reliable operating condition. While significant investment in many capital facilities is still required, the Town of Needham has made an extraordinary investment in public infrastructure during the past decade. The Town’s success in this area is a direct result of continued and sustained focus on asset evaluation, needs assessment, careful planning, and prioritization. The need for this level of investment in facilities and infrastructure is generally attributable to three factors – the age of the community and its infrastructure and assets, the built environment and amount of lane miles of roadway, and the growth in school age population after the Second World War that resulted in a building boom from 1951 to 1960. After the advent of Proposition 2½, the community found it difficult to make necessary investment in its array of school facilities. This resulted in a need for complete replacement or rehabilitation of the entire system beginning in the mid-1990s and continuing today. FY2019 saw the largest one-time investment in municipal facilities ever with the approximately \$70 million reconstruction of the public safety buildings. Finally, based on adoption of and changes to the Community Preservation Act, the Town has made a truly remarkable investment in athletic facility, parks, and recreational amenities including Walker Gordon Field, Greene’s Field and Playground, Newman Fields, Eastman Trail, the Rail Trail, the all-abilities trail around the Needham Reservoir, the reconstruction of the Rosemary Pool and Recreation Complex, the reconstruction of the Memorial Park Fieldhouse, and the Rosemary Lake sediment removal project. Table 2 shows the Town’s investment in facilities and infrastructure over the past five years.

Table 2

Description	2015	2016	2017	2018	2019	Total	Average
Municipal Facilities	\$105,779	\$90,000	\$649,000	\$6,126,000	\$74,641,000	\$81,611,779	\$16,322,356
Townwide Facilities and Community Services	\$750,219	\$3,513,323	\$756,154	\$17,202,000	\$8,826,000	\$31,047,696	\$6,209,539
Public Works Infrastructure Program	\$1,760,000	\$3,453,500	\$1,700,000	\$2,011,000	\$2,508,500	\$11,433,000	\$2,286,600
School Facilities	\$200,000	\$9,368,000	\$58,791,714	\$15,168,000	\$2,796,000	\$86,323,714	\$17,264,743
Drains, Sewer, and Water Infrastructure	\$1,283,050	\$2,320,500	\$375,860	\$2,900,000	\$2,395,000	\$9,274,410	\$1,854,882
Total Appropriations	\$4,099,048	\$18,745,323	\$62,272,728	\$43,407,000	\$91,166,500	\$219,690,599	\$43,938,120

Investment in Equipment, Technology and Fleet

The position of the Town with respect to its equipment and technology capital investment is also positive. Major categories of this capital spending include Public Safety, Public Works, and Public Facilities fleet and equipment, School and Town-wide technology, and School copiers and equipment. Table 3 shows the Town's investment in these categories of capital spending for the five year period FY2015 through FY2019.

Table 3

Description	2015	2016	2017	2018	2019	Total	Average
All Other Functions		\$30,645			\$68,970	\$99,615	\$19,923
Public Facilities & Works	\$29,797	\$144,000	\$120,000	\$162,000	\$176,500	\$632,297	\$126,459
Public Safety				\$167,872	\$43,424	\$211,296	\$42,259
Public School	\$112,000	\$108,145	\$45,000	\$45,000	\$60,500	\$370,645	\$74,129
Equipment	\$141,797	\$282,790	\$165,000	\$374,872	\$349,394	\$1,313,853	\$262,771
All Other Functions	\$130,000	\$30,000		\$145,000	\$215,000	\$520,000	\$104,000
Public Facilities & Works	\$33,000	\$129,500				\$162,500	\$32,500
Public Safety	\$408,615				\$112,000	\$520,615	\$104,123
Public School	\$679,325	\$403,000	\$347,080	\$510,290	\$706,790	\$2,646,485	\$529,297
Technology	\$1,250,940	\$562,500	\$347,080	\$655,290	\$1,033,790	\$3,849,600	\$769,920
All Other Functions			\$87,353			\$87,353	\$17,471
Public Facilities & Works	\$343,572	\$1,146,902	\$730,618	\$640,433	\$1,616,409	\$4,477,934	\$895,587
Public Safety	\$248,267		\$137,877	\$224,677	\$840,163	\$1,450,984	\$290,197
Public School				\$99,611	\$97,552	\$197,163	\$39,433
Fleet	\$591,839	\$1,146,902	\$955,848	\$964,721	\$2,554,124	\$6,213,434	\$1,242,687
Total Appropriations	\$1,984,576	\$1,992,192	\$1,467,928	\$1,994,883	\$3,937,308	\$11,376,887	\$2,275,377

